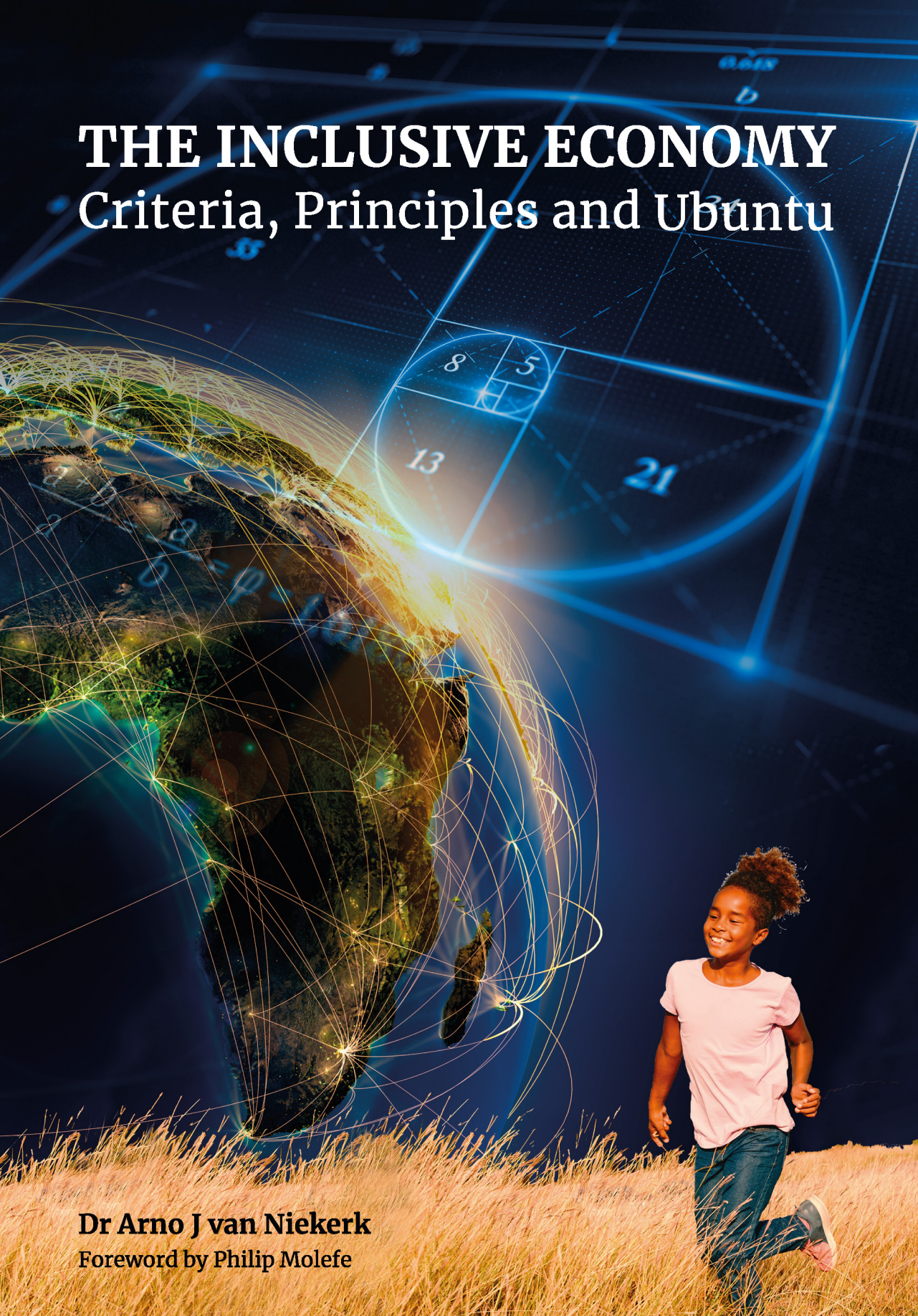


THE INCLUSIVE ECONOMY

Criteria, Principles and Ubuntu

The background is a complex digital composition. On the left, a globe of the Earth is shown with glowing green and yellow network lines connecting various points across its surface. To the right of the globe, a large, glowing blue golden spiral is overlaid, containing the numbers 8, 5, 13, and 21. The entire scene is set against a dark blue background with faint geometric patterns. In the bottom right corner, a young girl with dark skin and curly hair, wearing a pink t-shirt and blue jeans, is running through a field of tall, golden grass, looking up and smiling.

Dr Arno J van Niekerk
Foreword by Philip Molefe



The Inclusive Economy Criteria, Principles and Ubuntu

AJ van Niekerk



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Dedication

To all those who truly want to see economic renewal.

To the people, especially the people of Africa,
for whom the time has come to break all forms of economic slavery.
The world has plenty of wealth; it simply needs a better plan.

Together, let's build an economy that works for everyone.

Book Endorsements

“Modern capitalism is based on the false assumption that the purpose of business is to maximise profit for the benefit of shareholders. This has led to a series of dysfunctions ranging from environmental degradation and increased inequality. Dr A.J. van Niekerk in his book *The Inclusive Economy: Criteria, Principles and Ubuntu* proposes a convincing path forward to restore the equilibrium in the economy based on the old African principle of Ubuntu – which literally means that a person is a person through other people.”

– Bruno Roche (Founder and executive director of The Economics of Mutuality, Geneva, Switzerland)

“Psychology teaches that things do not change until the discomfort of staying where we are exceeds the discomfort of change. Our economic systems are quickly reaching this point. This book provides a challenging alternative to Financial Capitalism and rightly points to the pressing need for a new and sustainable way to look at prosperity, well-being and value. It is a useful contribution to the discussion as we rethink the foundations of our economy.”

– Prof Arleen Westerhoff (Director, Center for the Economics of Mutuality, Erasmus University, Netherlands)

“What captures me the most about this book is its simplicity. By that I do not mean its construction, as that is rather complex to say the least. Rather, its boldness to claim that moving to a higher-order inclusive discourse that encapsulates the morality of a binding social contract between the *haves* and *have-nots* is seen to be an alternative to mainstream economic thinking that has traditionally had an uncomfortable penchant for oversimplified metrics such as economic growth. Although it might seem rather abstract, it is no coincidence that the proposed value of incorporating *Ubuntu* principles is akin to those found in the *Philotimo* that has been entrenched in Greek philosophy for centuries. In many ways, it is a pronouncement of deeply philosophical thinking into the practical daily lives of the common person. This book sets a new moral and ethical standard and challenges the traditional capitalist economic agenda. At the very least, it provides a roadmap for policymakers to think beyond the boundary restrictions of previous policy and encourage rigorous

debate on the intrinsic value of our humanity. To my mind, Dr van Niekerk has established himself as a leading figure on this topic.”

– Prof Johan Coetzee (Associate Professor in Banking in the Department of Economics and Finance, University of the Free State)

The author should be commended for challenging the conventional economic theory and provided practical examples. This manuscript is suitable for both specialists and non-specialists such as practitioners in the government and private sector organisations. I suggest that when it is formally launched, should be made available to policy makers.

– Prof. Hinaunye Eita (Professor and Head of Academics: School of Economics, University of Johannesburg)

The manuscript disseminates original research in the specific field of economics particularly in reinventing the wheel of economic thinking of the neo-classical school of thought (Orthodox growth determination via predatory capitalist) to inclusive-capitalist casting consciousness and clear elaborations on the inadequacies of the neo-classical thinking using horizontal –trickle down growth models that are highly resilient growth process from external shocks, avoids cascade effects and retains vital growth ingredients.

– Mike Alex Tembo Jr (Economic Researcher, Stellenbosch University)

Foreword

Phil Molefe

*Member of the International Board:
Howard University, Washington DC.*

This is a handbook for the new economy – a blueprint that all can follow, especially the next generation. It not only shows the way; it inspires the way. There's much to think about after reading this book. It truly represents a watershed moment in our understanding of the economy at a most critical time in history. Of particular interest is the concept of Ubuntu. It is an African expression for “I am because we are” or “humanity towards others” in the Zulu language – one of South Africa's widely spoken languages. In isiZulu, the concept is expressed as “*umuntu ngu muntu nga bantu*”, meaning a person is what he/she is because of other people. This principle shaped traditional African thinking and their approach to life, particularly in respect of bringing up families, education, social planning and economic development. Ubuntu is still relevant today as it used to be during the historical development of African societies.

When Dr Arno van Niekerk thus places a renewed emphasis on this concept in *The Inclusive Economy: Criteria, Principles and Ubuntu*, it is quite remarkable that he identifies Ubuntu as what the world economy needs *today* to address the rapid growth of imbalances between rich and poor, haves and have-nots, as well as the so-called “developed” and the “under-developed” nations. The rich nations of the world actually *need* the poor and under-developed countries to ensure a balanced and prosperous global economy. It is a basic economic principle that helping poor nations to develop will inevitably require the growth of their market size, thus stimulating the growth of the global economy as a whole. Together, we grow and develop. Poor nations are not asking for hand-outs; they demand a seat at the table. That is inclusivity: to grow and develop together for the benefit of all.

According to the Organisation for Economic Co-operation and Development (OECD), there is widespread concern that economic growth has not been fairly shared and that economic crises have only widened the gap between rich and poor. Part of the OECD's function is to examine the trends and patterns in inequality and poverty in developed and emerging countries. Dr Arno Van Niekerk takes the analyses of the OECD a step further by offering more fundamental

solutions to the problem, such as Ubuntu and the unique way in which he proposes economic inclusivity.

A 2014 OECD Report admits that:

Inequality is bad and getting worse. In the 1980s, the richest 10% of the population in OECD countries earned seven times more than the poorest 10%. They now earn nearly ten times more. When you include property and other forms of wealth, the situation is even worse: in 2012, the richest 10% controlled half of all total household wealth and the wealthiest 1% held 18%, compared to only 3% for the poorest 40%. The poorest members of society suffer immediately from inequality, but in the longer term, the whole economy is also damaged. Figures show that the rise in inequality observed between 1985 and 2005 in 19 OECD countries knocked 4.7 percentage points off cumulative growth between 1990 and 2010. To reduce inequality, we have to promote inclusive growth. Create economies where every citizen, regardless of income, wealth, gender, race or origin is empowered to succeed.

This highlights Van Niekerk's standpoint on promoting inclusive growth. In this book, Van Niekerk very clearly states: "The serious missing link at the centre of today's capitalism is a disequilibrium between increased economic interconnectedness and increased isolation/exclusion." It strikes the right chord, and the reasoning advanced resonates with many researchers and commentators stressing an integrated approach to the world economy. The developed cannot develop without the *inclusion* of the world's developing and under-developed countries. An exclusion means locking out more than two-thirds of the world's population from the global economic mainstream. Van Niekerk provides practical solutions to this that many others struggle to find.

What makes it unique is that this book is a wake-up call and warning against the current vices of capitalism and the dangers of looming socialism. One shouldn't be surprised if your eyes are opened after reading this book. Economic fallacies are exposed, and you realise: change is possible. Transitioning to an inclusive economy – as outlined in this book – is therefore truly a viable economic intervention strategy. Africa makes a compelling case for inclusion in a more integrated approach. The continent has the youngest and fastest-growing population, which means there is huge potential for growing the market as well as economic opportunities. The continent's

Foreword

young population is savvy, educated and technologically advanced to make a meaningful contribution to global economic development. As of May 2022, the total population of Africa amounted to over 1,4 billion – a market not to be ignored by leaders in the global economy. Over and above that, the continent of Africa is richly endowed with mineral resources, land and agricultural opportunities.

Global leaders and economic role players must now move with urgency to address the economic challenges facing the whole world. It is no longer the problem of highly indebted and poor countries alone – nay, it is a global problem. All role players are needed. As the late Archbishop Emeritus Desmond Tutu said after South Africa's transition to democracy in 1994, "Politics is too big to be left to politicians alone". The same applies to the economy. This approach is that of Ubuntu – *inclusive thinking*.

As African writer and scholar Chinua Achebe succinctly observed: "Things fall apart ... yes, we are no longer at ease." The wheels are coming off, and we have to get the socio-economic locomotive on the right track. Ubuntu, indeed, is the solution, the missing link, in current economic growth and development, as Dr Van Niekerk pinpoints. This book offers a lasting solution to a wide range of challenges we face today. The writer is under no illusions that there are quick fixes, but he offers highly thought-provoking insights on how we could deal decisively with our challenges, and not just overcome them but unlock new opportunities. While Dr Van Niekerk's book makes a convincing proposition (economic inclusivity), it is also easy to read and relevant to today's world problems. I found it to be both refreshing and challenging.

July 2022
Sharpeville, South Africa

Introduction

Our major twenty-first-century economic challenge and Ubuntu

In view of the shock waves caused by the COVID-19 pandemic, followed by the energy and food crises brought about by the Russian invasion of Ukraine, the world is reeling from their ripple effects that could possibly become one of the most daunting existential crises in human history. Even before these events, the global economy reached alarming limits with little scope for “shock-absorption”. Not just sustainable economic progress, but whole economic systems have been under pressure for a number of years to make adjustments that benefit greater proportions of populations.

Exclusion in various forms has increasingly become the Achilles heel of the current neoliberal economic framework that is still predominant in the majority of countries around the world. While the nature and composition of the system vary from one economy to another, the one common denominator in most cases is increasing economic exclusion, shown in particular through economic inequality. In pointing this out, it is necessary also to recognise that research has found that not all economic inequality is *harmful*.¹ In fact, in some cases, it might be necessary to stimulate economic growth through higher productivity, thus becoming an incentive for greater individual effort and innovation.² However, researchers generally agree that, on balance, the impact of economic inequality (and exclusion) is significantly more negative than positive.³

Beyond wars, pandemics, natural disasters and financial crises, arguably the fundamental economic challenge humanity is facing is that our economic progress is increasingly *hollow*. We have a system crisis. Globalisation has made the global economy more interdependent, yet the more economies grow, the more people are excluded (i.e., fall through the cracks). The nature of the economy (interdependence) is *out of sync* with the nature of its progress (independent). Our unique techno twenty-first-century situation is that the rise in opulence is matched by escalating depravation. Side by side, the forces of economic expansion (for some) and economic contraction (for many) are reaching alarmingly new heights in world history, especially as the effects of COVID-19 are *resetting* economies. The basic problem with

The Inclusive Economy: Criteria, Principles and Ubuntu

the situation is that it is not only unsustainable but self-defeating. Either it will result in massive starvation, except for a few lucky ones (the rich, perhaps), or it will result in the self-destruction of the global population, picking up speed as we supposedly progress. To fully understand the severity of the situation, contextualisation is needed.

In his book *Stuffed and Starved*, author Raj Patel indicates that one billion people in the world are malnourished and almost twice that are overweight.⁴ He adds that this new scramble not only for land but for the resources of the poor sets us up for a century of resource conflicts the likes of which we have never seen before. Naomi Klein agrees that:

Our economy is at war with many forms of life on earth, including human life. What the climate needs to avoid collapse is a contraction in humanity's use of resources; what our economic model demands to avoid collapse is unfettered expansion. Only one of these sets of rules can be changed, and it's not the laws of nature.⁵

As such, inequality has become not just an economic issue but also a *moral issue*. According to Joseph Stiglitz, "rather than justice for all, we are evolving into a system of justice for those who can afford it. We have banks that are not only too big to fail but too big to be held accountable."⁶ Thomas Picketty points out:

When the rate of return on capital exceeds the rate of growth of output and income, as it did in the nineteenth century and seems quite likely to do again in the twenty-first, capitalism automatically generates arbitrary and unsustainable inequalities that radically undermine the meritocratic values on which democratic societies are based.⁷

The link between economic inequality and exclusion is clear from some of the structural features of the economy: Firstly, the perceived *trickle-down effect* has, over history, always over-promised and under-delivered in many developing and developed economies.⁸ For example, between 1979 and 2007, the top 1% globally had income growth of 60% compared to a meagre 9% for the bottom 90% of households.⁹ Since the 2007–2009 global financial crisis (GFC), this inequality has gotten significantly worse, especially due to increased income and wealth concentration. Secondly, *jobless growth* was listed by the World Economic Forum (WEF) in 2015 as the second major issue confronting economies worldwide. Empirical evidence links it to structural

impediments in economies such as a lack of employment creation abilities, education gaps and unbalanced sectoral development.¹⁰ Thirdly, the *concentration of wealth* within industries keeps increasing (e.g., the banking industry, where most banks globally are owned by only a handful of banks).¹¹ Fourthly, structural changes in the economy between primary, secondary and tertiary sectors often result in *disproportionate growth* in human capital and the formation of monopolies, leading in many cases to expanded income and wealth inequality, as well as widened market imperfections.¹²

On the other end of the spectrum concerning economic exclusion is the beautiful African concept and principle of 'Ubuntu'. Ubuntu prioritises people over profits, but in such a way that improves overall well-being. Emphasising inclusivity, Ubuntu refocuses the economy on inclusive growth, inclusive business and inclusive development. Being able to *rebalance* stark economic imbalances, such as increasing inequality, poverty, unsustainable growth, and resource exploitation, Ubuntu (economics) is able to provide the right ingredients at the systemic level in the economy to redirect it towards genuine and sustainable economic progress. Ubuntu has a unique ability to connect inclusivity with accountability, especially as it impacts different economic role players. This occurs as it sets a standard for inclusivity and generates mutually beneficial economic outcomes. In this way, economic inclusivity – as it relates to Ubuntu – can provide proper substance to fill the hollowness of today's economic progress, thus aligning the nature and progress of the economy.

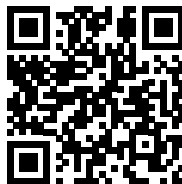
Economic inclusivity is a fundamental condition for creating a sustainable and more diversified economy. The nature and dynamics of building an inclusive economy are essential aspects that need careful and urgent study, together with their effective implementation. The future of not only the economy but of the planet may be dependent on this single factor (inclusivity) as it is the critical ingredient for developing an economic model that *balances* essential human needs and planetary boundaries. A framework for making new and appropriate changes to the economy is desperately needed if genuine progress is to become a reality that lasts.

We require new economic thinking that challenges the status quo in a healthy and meaningful way. Our economy vitally needs to evolve in a manner that includes rather than excludes. Just as in nature, what brings sustainability is balance. The book examines the nature of this balance and what it means in an inclusive economic context. Principles and five criteria are identified to provide a basic framework

for characterising the key components of an inclusive economy.¹ These criteria are by no means exhaustive; they aim to stimulate more rigorous exploration into different *facets* of economic inclusivity. Importantly, the focus of the book is on dealing with structural, systemic changes (fundamental changes to the economy) and not just surface-level adjustments/reforms. The aim is, on the one hand, to chart and explore new territory as regards true economic progress. On the other hand, it is to intensely stimulate new economic thinking – with Ubuntu as a precept.

After exploring the meaning of inclusive economics in Chapter 1, Chapters 2 to 6 investigate each of the five criteria identified: inclusive growth, genuine economic progress, the circular economy, collaborative economy, and inclusive economic policies and institutions. Chapter 7 concludes the book by evaluating key areas where change must occur for the economy to *transition* from a linear (exclusive) model to a circular (inclusive) model. Related aspects to economic inclusivity are also considered, such as the vital role of innovation, inclusive governance, globalisation and Africa's Ubuntu economic principles applied in the current economy. By means of a descriptive inquiry, the five criteria are identified on the basis of a review of literature, indicating a high degree of overlapping of themes involving these five aspects, which has been done by examining a wide variety of economic frameworks.¹³ As the book will show, they are central requirements to any economic agenda that wants to achieve sustainable economic progress that benefits all.

Scan the QR code to access a video on this introduction by the author.



1 Just to be clear, an *inclusive economy* has no political connotations or agendas, and is distinct from *inclusive politics* or from political inclusivity. What one could argue, though, is that it forms part of an *inclusive democracy* that focuses on re-integrating society with economy, polity and nature. For instance, the public realm could be extended to include the *ecological realm* and greater participation of citizens in policy formulation could add value to the common good.

Chapter 1

What is inclusive economics?

“You can’t be an island of wealth in a sea of poverty.”

Introduction

The need for alternative economic frameworks became particularly evident – or rather exploded onto the international scene – after the 2007–2009 global financial crisis (GFC). This terrible crisis showed that neoliberalism (market fundamentalism), promoted after the Washington Consensus in 1989 by leading international institutions and through many countries’ economic policies, has intrinsic flaws. In light of globalisation, neoclassical economic frameworks remained the preferred *modus operandi*, but alterations from a systemic point of view became undeniable. The central question was whether tweaking or fine-tuning was the solution or whether fundamental changes to how the economy functions would be more effective.

As time progressed, and particularly as the economic effects of the global lockdown due to the COVID-19 pandemic sunk in, the balance of opinion shifted towards the need for deeper and more fundamental changes.¹⁴ Even before the crisis, over half of the world’s people lived in poverty. Trying to recover, the realisation of moving/evolving towards an alternative economic framework that is not driven by supercapitalism (or simply business as usual) has started to set in, in most economies.¹⁵ A more sustainable framework that benefits more people and is good for the environment has become paramount, not just optional.

Dubbed “The Great Reset” by the WEF, the post-COVID-19 world is expected to show changes unlike what we have ever seen in history, especially on a global scale.¹⁶ On the one hand, the global lockdown restrictions introduced a period (or even an era) of unprecedented collaboration between countries to curb the spreading of the virus. On the other hand, it has introduced sets of social rules that are perceived as *draconic* or dictatorial in many ways. This unnatural modification of society for personal health reasons has indeed caused a “great reset” of our thinking, psychological frameworks and economic decision-

making. A *new normal* has taken shape, creating a new reality not just fashioned by virus/health anxieties but by a different understanding of the world as far as risk-sharing is concerned. However, fears are rising about a more authoritarian global village taking effect, asking justified questions about what kind of economy will emerge in an increasingly *controlled society*. More specifically, especially in light of the growth and success of China's mixed economy, are we going to see more socialist models for the economy being introduced? If that means more centralised control, it sends warning signals. The need is rather for more decentralised models stimulated by collaboration, innovation, self-sustainability, economic equity and social justice. It is in this context that inclusive economics finds its expression and meaning.

This chapter aims to provide conceptual clarification and a comparative perspective on what an inclusive economy entails and what it does not. A theoretical framework is outlined to assist in properly positioning inclusive economics in the context of economic theory. It also considers some of the implications and developments related to economic inclusivity in economic systems.

Conceptualisation: What is an inclusive economy?

It is an economy driven by inclusive growth with the aim of yielding genuine economic progress to promote equality of opportunity and broader¹ well-being in terms of both people and the planet. According to Sara Murawski: "Inclusive economy means creating more sustainable and inclusive societies that aim at including all members of society in the growth process itself instead of distributing wealth among them after periods of steep growth."¹⁷

The primary goal is to prevent social exclusion, but inclusive economy models expressly target the prevention of global economic crises by regulating capital flows and reforming the financial system. Specific attention is likewise paid to the environment, aiming to shape a green global economy. The three interrelated aspects: prioritising people and the planet and preventing crises are what, at a basic level, encapsulate economic inclusivity. In all the facets of an inclusive

1 The components of this description will be unpacked in later chapters for better clarity and understanding. For now, perceiving it as *overall well-being* would suffice, which include both individual and collective well-being. Notably, the emphasis on human well-being (broader than gross domestic product (GDP) growth) is integral to the *humanness* philosophy of Ubuntu.

economy, these three Ps should be evident; otherwise, (such) economic activity cannot be recognised as *inclusive*. Let's see why.

When considering the etymology and origins of economic inclusivity, it can be traced back to the very first word used to describe the economy, namely the Ancient Greek word *oikonomos* (Latinised *oekonomus*).¹⁸ It means management (*nomos*) of the household (*oikos*), placing emphasis on the household's collective participation in production and the distribution of benefits or produce. Originally, economic activity was seen as inherently inclusive, even as regards the community as a whole, not just for individual households.

As the economy expanded, this original DNA seems to have gotten lost, especially considering today's consumerist-driven, all-out, profit-chasing mindset. Gains, at whatever cost, became more important than ensuring the benefit of the economy was shared among all participants. No wonder Adam Smith wrote *The Theory of Moral Sentiments* (1759) before writing *The Wealth of Nations* (1776). If wealth-seeking is not balanced by moral responsibility, exploitation follows, accompanied by increasingly disproportionate inequality (or exclusion). The re-emphasis on economic inclusivity, therefore, represents a *rebalancing* of the current unsustainable economic status quo.

An inclusive economy aims to reclaim the original purpose of the economy, namely, to organise society through distributing tasks and resources so that collective well-being is achieved.¹⁹ In this way, the market serves (or should serve) as an effective instrument of resource distribution and wealth creation (safeguarding collective well-being). Herman Daly and John Cobb highlight three characteristics of *oikonomos*:²⁰

- It takes the long-term rather than the short-term view.
- It considers costs and benefits to the whole community, not just to the parties to the transaction.
- It prioritises the restrained accumulation of wealth (economy of enough) rather than the drive towards unlimited accumulation (economy of more).

This *economics for community* involving care and shared responsibility could thus be identified as the true character of the economy. Because of conscience, morality was originally seen as integral to economics as a social science. When morality, conscience and values are divorced from the market, *oikonomos* turns into greed and exploitation, resulting in pervasive externalities. The contemporary work of Amartya Sen has

re-emphasised the importance of ethics in economic development. His unique concept of *ethical universalism* is basically “An elementary demand for impartiality – applied within generations and between them. It is, in the present context, the recognition of a shared claim of all to the basic capability to lead worthwhile lives”.²¹

Even Adam Smith, arguably the father of economics, considered the moral force of shared community values as a necessary restraining factor to the tendency of the market to deplete moral capital instead of economising on it.²² Conscience arises from dynamic and interactive social relationships. Accommodating others’ interests in economic decision-making, therefore, ensures that, similarly to an ecosystem, the right balance in the economy is kept in check.²³

To further illustrate the concept of an inclusive economy, it is worthwhile to contrast it to what it is absolutely not. As early as 310 BC, Aristotle used the term ‘*chrematistics*’ as an antithesis to *oikonomos*. *Chrematistics* refers to the manipulation of property and wealth to maximise an owner’s short-term monetary exchange value. Unlimited accumulation is the goal of the *chrematist*, and Aristotle considered it unnatural and a threat to the fair distribution of resources.²⁴ As is the case with today’s supercapitalism, the concern to society was that private riches could expand while public wealth declined due to a manipulation of resource distribution. The high number of economic crises with global ramifications, especially in the 1990s, validates this concern.

The kind of economy the world is searching for is one that is more balanced, inclusive and circular in design. Economics as a science literally needs to *reinvent* itself in terms of its origin. The goal of an inclusive economy is to move beyond a solely growth-centred approach to progress and to innovatively construct a well-being economy that benefits the individual as much as the collective.

Theoretical framework for economic inclusivity

Mainstream economic thought is primarily divided between classical economics, Keynesianism, neoclassical economics, new Keynesian economics and monetarism, among others. As a social science studying scarcity and human behaviour, economics is a rational-choice system dividing responsibilities between producers and consumers, organising the distribution of goods and services and designing a

monetary system to manage it. As the first economic theory,² classical economics identified factors of production (land, labour and capital) as the major contributors to a nation's wealth, influenced by competition, resource-allocation, the market mechanism (supply and demand), specialisation and income distribution. Given that the market might be efficient in allocating resources but not in distributing income, making it necessary for society to intervene, Keynesian thought started to surface. Keynesian economics advocates for increased government expenditures and lower taxes and interest rates to stimulate demand and pull an economy out of recession/depression.²⁵

Neoclassical theory, in contrast, argues against government involvement in the economy, suggesting that the market is self-regulatory. Utility to consumers, not the cost of production, is seen as the most important factor in determining the value of a product or service; maintaining that forces of supply and demand leads to an efficient allocation of resources. The new Keynesian theory holds that households and firms have rational expectations but acknowledges that there are a variety of market failures, together with the existence of imperfect competition in price and wage-setting, thus explaining why prices and wages can become *sticky*, meaning they do not adjust instantaneously to changes in economic conditions.

Resulting in the economy failing to attain full employment, New Keynesians argue that macroeconomic stabilisation by the government (using fiscal policy) and the central bank (using monetary policy) can lead to a more efficient macroeconomic outcome than a *laissez-faire* policy would.²⁶ Monetarism asserts that the objectives of monetary policy are best met by targeting the growth rate of the money supply rather than by engaging in discretionary monetary policy or using fiscal policy (government spending) to stimulate the economy.²⁷ Monetarists contend that variations in the money supply have major influences on national output in the short run and on price levels over longer periods.

It is notable that these orthodox theories have in common rational behaviour theory, which states that people act rationally when making economic decisions. This is called *Homo economicus*, that

2 While they cover a wide variety of aspects in the field of economics, economic theories per se should be differentiated from economic systems, which include capitalism, planned economies, mixed economies, and from several branches of economics such as micro-economics, macroeconomics, international economics and development economics.

cool calculator of self-interest. In reality, as pointed out by especially behavioural economics, economic participants are, in many cases, incautious in protecting their wealth (as revealed by the GFC), are highly susceptible to psychosocial factors, and are easily swayed by emotions.²⁸ It appears that humans are plagued by weaknesses such as present bias, self-serving bias, reference standards, seeing illusory patterns, money illusion and herding (following the crowd). Deviations in human behaviour from the behaviour of *Homo economicus* increase the risk of unregulated markets. The GFC has revealed the inability of unregulated markets to correct themselves, justifying the concerns of some economists about the traditional market failures: negative externalities, imperfect competition, public misspending, asymmetric information with adverse selection and moral hazard. More caution is needed against the dominance in the past three decades of a free-market ideology that effectively opposes market regulation.

Clearly, the economic model based on the *Homo economicus* needs serious reformulation. All this suggests a closer study of what is called “heterodox economic theories” to better understand irrationality and the weaknesses of the market so as to develop a more holistic and inclusive framework for economic change.

Heterodox economic theories

These economic thoughts/theories contrast with orthodox/conventional schools of economic thought or may be beyond neoclassical theory; some are institutional, evolutionary, feminist, socialist, post-Keynesian and ecological economics (eco-economics). Some of these theories that are of significance for this inclusive economic inquiry will be highlighted here: First among them is institutional economics, which views markets as a result of the complex interaction of various institutions: e.g., individuals, firms, states, and social norms, thus emphasising the role of institutions in shaping economic behaviour through an evolutionary process. It focuses on learning, bounded rationality (market participation is limited by cognition, decision-time and access to information), and evolution (rather than assuming stable preferences, rationality and equilibrium).

The latter is seen in the context of markets, money and the private ownership of production as indeed evolving over time as a result of the purposive actions of individuals.²⁹ Behavioural economics is one of the hallmarks of institutional economics, basing its assessments on what

is known about psychology and cognitive science rather than simple assumptions of economic behaviour.

John Kenneth Galbraith was a leading institutional economist who addressed underlying forces in modern society that proliferates inequality. Since the late 1950s, he was particularly critical of big businesses setting their own terms in the marketplace and using their combined resources for advertising programmes to support demand for their own products. Consequently, individual preferences actually reflect the preferences of entrenched corporations, a *dependence effect*, and the economy as a whole is geared to irrational goals.³⁰ Galbraith expressed concern that economic decisions are planned by a private bureaucracy, a *technostructure* of experts who manipulate marketing and public relations channels. This hierarchy is self-serving, and as the new planners, corporations detest risk, requiring a steady economy and stable markets. They recruit governments to serve their interests through fiscal and monetary policy. The result is public space becoming impoverished while corporates amass luxury: stepping from penthouse villas onto unpaved streets, from landscaped gardens to unkempt public parks. This is how the goals of an affluent society and complicit government serve the irrational technostructure (or technocracy). In addition, as voters reach a certain level of material wealth, they begin to vote against the common good.

Galbraith argued for 'new socialism' (social democracy),³ which seeks to humanise capitalism and create the conditions for it to lead to greater democratic, egalitarian and solidaristic outcomes.³¹ It pursues the reformation of capitalism to align it with the ethical ideals of social justice. Policies dealing with market imperfections are aimed at reducing inequality, eradicating oppression of disadvantaged groups and eliminating poverty, as well as support for universally accessible public services (e.g., child care, education, care for the elderly, health care and workers' compensation).

Out of this, *The Third Way* developed in the 1990s, which is a synthesis between economic interventionist policies and free-market ideology. Promoting 'new capitalism', *The Third Way* pursues greater egalitarianism in society through action to increase the distribution of skills, capacities and productive endowments while rejecting income redistribution as the means to achieve this. It underscores commitment to balanced budgets; provision of equal opportunity, combined with an emphasis on personal responsibility; the decentralisation

3 Note that social democracy is different from democratic socialism, which is anti-capitalism and pro-socialism.

of government power; encouragement and promotion of public-private partnerships; improving labour supply; investment in human development and preserving social capital; and protection of the environment.³²

Another variant of this is the ‘social market economy’, which is a socio-economic model that combines a free market capitalist economic system together with social policies that establish both fair competition within the market and a welfare state.³³ West Germany successfully made use of this model in the 1950s.

Other types of heterodox economic theories significant to economic inclusivity include:

- *Ecological economics* – treats the economy as a subsystem of the earth’s larger ecosystem, stressing the preservation of natural capital.³⁴ It is a transdisciplinary field that studies the interdependence and co-evolution of human economies and natural ecosystems.
- *Evolutionary economics* – emphasises complex interdependencies, competition, growth and structural change but is unique in the methods used to analyse these phenomena, e.g., using the non-equilibrium economics principle of circular and cumulative causation.³⁵
- *Socialist economics* – is characterised by social ownership and operation of the means of production that may take the form of direct public ownership or autonomous cooperatives wherein production is carried out directly for use rather than profit.³⁶
- *Feminist economics* – calls attention to topics that have been neglected in the field, such as care work, intimate partner violence, or economic theories that could be enhanced through better inclusion of gendered effects and interactions, such as between paid and unpaid sectors of the economy.³⁷

Inclusive economic theory

‘Inclusive economic theory’, which is a relatively new development, comprises integrating complementary economic paradigms in a distinctive framework. These theories consist of ‘idealist neoclassical theory’, ‘realist neoclassical theory’ and ‘neo-realist economics’. Together, these theories contribute to approaching contemporary economic analysis and policy-making in a more realistic way as they aim to identify what is true in interpreting economic realities, solutions and changes.

Inclusive economic theory probes the limits of neoclassical and neo-realist paradigms to draw valid positive and normative inferences about real economic behaviour to give inclusive guidance on how to proceed when these theorems fail to correspond with observed behaviour in reality.³⁸ It is not just about elevating the status of social concerns in the economy or making contemporary economic policy but starting to develop an *integrated* body of economic theory as a guiding framework for dealing with individual, collective and environmental realities/challenges in an inclusive economy.

The idealist neoclassical theory provides a good picture of what an ideal economy would look like if people were always rational. The competitive ideal, as the main driver of wealth creation, led to utilitarianism which provided a framework for how to value and determine the comparative worth of goods and services since utilities could be ordered, ranked, quantified, added and multiplied across individuals.³⁹ The great weakness of neoclassical theory, i.e., a predisposed faith in the invisible hand of the market always being effective, was exposed in the nineteenth century when average income levels increased more than before, but in tandem with economic inequality.

This changed the perception that rationality, self-interest and profit or utility maximisation are simple, straightforward pathways in the pursuit of economic progress. Wealth creation, left only to the market, occurs at the expense of something. For instance, a growing *imbalance* occurs when producers keep maximising profits, but consumers tend not to maximise utility at optimal levels. The realisation became clear: Given economics being a social science, inconsistency and irrationality form as much a part of economic processes and decision-making as self-interest and seeking optimal utility. Since man is not perfect, perfect rationality does not exist, and so does *Homo economicus* not exist, but it is worth being an ideal.

Closer to reality, therefore, is the need for a more cooperative framework where consumers maximise utility and producers maximise profits as part of the shared collective ideal of wealth creation that benefits all, which is what true economic progress is about. Ironically, through its weaknesses, the idealist neoclassical theory helps or makes its contribution to the inclusive economic framework by pointing, by defect, in this direction.

The realist neoclassical theory is particularly characterised by the advancement of the theory of *bounded rationality*. This more pragmatic approach provides a realistic foundation for exploring

many unique types of economic behaviour excluded in the perfectly competitive framework.⁴⁰ In an era of accelerating innovation, the occurrence of *creative destruction* is driven by competitive intra-market modernisation. Old economic structures are destroyed by new ones as new consumer products, markets and technological innovation in production, communication systems, and transport escalate. Of concern, though, is the negative externalities resulting from innovation's *self-destruction*.

What appeared as progress turned out to be a continued net deficit, considering the social and environmental costs of neoclassical economics (supercapitalism). The limitations of the neoclassical paradigms – idealist and realist – are found in bounded rational vulnerabilities and the market's deficient self-regulation. Again, while this is a weakness, together with mankind's moral imperfectability, it points to the need for collective accountability in our economic system.

The neo-realist economic theory assists in assuring that *satisficing*⁴¹ yields acceptable results where bounded rationality and sound heuristics fall short. It covers the cases where neoclassical outcomes are inadequately explained by reason, despite workably competitive price attractors and heuristic substitutes for optimal decision-making.⁴¹ When reason fails, people are unreasonable, often discontented, conflicted, driven by undisciplined desires or coerced by the powerful. The reality is that cognitive and environmental constraints often compel people to *satisfice* in a real world that is, in many cases, not stable, efficient and beneficent.

The strength of the Neo-realist explanation is that it is not confined to the rational individualist, utilitarian and community-neutral models of ideal organisation and social control. Whereas consumer preferences determine supply in the neoclassical world, disturbed and meticulous consumers or usurpers of power are the dominant role players in the neo-realist world. Economies thus involve mixes of ideal, realist and neo-realist forces. Examining several welfare- and utility-enhancing behaviours overlooked by neoclassical theory, neo-realist theory found that where norms are more consistently applied, societies are expected to perform better.

A practical example is the Japanese economic system that embraces *group values* (family, community, company and government) where sacrifices are seen to enhance their well-being.⁴²

4 Satisficing means seeking a satisfactory solution, not necessarily the optimal one since it might be unrealistic.

In this communal culture, self-seeking and unregulated competition are frowned upon, yet their collective well-being keeps improving in a setting where institutions foster consensus-building. This model of *communalism* (not communism) does not reject markets; rather, it subordinates them to the higher cause of communal satisficing based on shared values. Such well-being-enhancing opportunities for individuals and societies are included in the neo-realist paradigm, thus serving as a substitute for neoclassical economics (which excludes it) and a complement for enhancing Pareto's optimal welfare.⁴³ It offers a more realistic picture of economic decision-making and collective progress.

Accordingly, inclusive economic theory appreciates the interdependent nature (shared aspects) of the three theories. As an umbrella that provides insight into individual, societal and national well-being, it can be considered a *filtered synthesis*. When ideal neoclassical theory does not provide Pareto optimal solutions, then realist and neo-realist paradigms govern aspects of outcomes, and causalities can be detected in full or partially by analysing theory and evidence with critical rationality to identify workable solutions.⁴⁴ As such, inclusive economic theory provides deeper insight into causality than neoclassical theory or neo-realist theory on their own and creates the potential for *superior* policy-making.

Individual and social behaviour and corresponding policy options are thus attained best by a combination of the three complementary paradigms. The task of economic theory, especially inclusive economic theory, is to accurately decipher complexities and devise properly targeted interventions tailored to reality rather than using only one paradigm as a lens to interpret the whole. This will inevitably include behaviours like transcendental awareness and satisficing communality, which offer societies and individuals opportunities to enhance their well-being.

Inclusive economic theory presents an alternative paradigm that does not replace but *reorients* neoclassical and neo-realist theories, redeeming the original purpose of the economy and causing a rethink of neoliberal supercapitalism, which is still stuck in Enlightenment idealism. The need for greater realism and broader inclusion in economic theory has become critical. This inclusion comprises both biocentric ethics and shared community values. Humanity's two greatest assets are *again* included and valued in this framework: a supportive local community and a healthy natural environment.

Both the loss and degradation of the biosphere and social disintegration are now fully recognised as severe threats to human existence. The social costs of crime, drugs, vandalism and other social ills are on the rise while humanity is staring an impending environmental catastrophe in the face, given deficient resource replacement coupled with a booming world population growth rate. Daly and Cobb⁴⁵ made a significant contribution in this regard, presenting a revaluation and reorientation of the dominant neoclassical economy and developing realistic alternatives to capitalism and socialism (both being growth economies).

They advanced a switch of emphasis in economics from money (chrematistics) to focused real-life resource management (*oikonomos*) and a revised measure of sustainable economic welfare to be included in a values-based framework for the economy. Even during the Enlightenment, Bentham found that societies that maximised collective utility, distinct from each individual maximising their own utility, were best.⁴⁶

In a balanced context, the inclusive economic framework creates space for seemingly opposites to co-exist. What appears to be contradictory elements of different economic paradigms need not be mutually exclusive. For instance, growth and competition are vital for economic progress but need to be counterbalanced or complemented by inclusive growth and cooperation; irrational hedonistic behaviour needs collective (altruistic) values, responsibilities and productivity in communities. These are vital balancing factors that must be included, not at the periphery but at the *core* of how the economy functions, how economic policies are formulated and in theoretical discourse.

Inclusive economic theory makes collective well-being, not just growth, a central focus and brings the economic model closer to sustainable economic progress. In search of higher well-being, a sharing economy is evolving organically, placing increased emphasis on circular, horizontal and decentralised economic systems in the global village. Inclusive economic theory *reduces* the self-centredness of neoclassical theory's individualism by appreciating, for instance, that consumer demand is often co-determined by various endogenous ethical and obligational factors, including family duty and community responsibility.

McCloskey's *virtue ethics* make it possible for hedonism to be modified, thus stressing ethically constrained optimisation in the context of shared collectivist ideals.⁴⁷ As part of the inclusive framework, national economic performance is, for that reason, better

assessed with a composite measure of well-being (physical and mental health), economic justice, consciousness, contentment and holistic personal fulfilment.

Since they are often used interchangeably, clarification is needed here on how well-being differs from welfare and wellness. 'Wellness' essentially refers to personal health, with no real reference to the broader social and natural expressions of life.⁴⁸ It has become a buzzword for commercialising fitness programmes, physical aesthetics, relaxation and feel-good practices, especially in the corporate world. Better related to economics, 'welfare' is a term often used to integrate some aspects of social benefits (primarily income) in mainstream economics focused on self-interested utilitarian behaviour. Private consumption is seen as the main source of prosperity.

'Well-being', by contrast, "points to the fact that meaningful lives require participation, a sense of purpose, empowerment and deep connections: the very opposite of the simplistic utility-consumption axiom".⁴⁹ In effect, well-being includes the full range of factors that influences what we value in living. Together, individual well-being and collective well-being are part of overall well-being.

In light of an emergent Fourth Industrial Revolution (4IR), *genuine progress*⁵ can only come from balancing extremes (i.e., appreciating balancing factors). Globalisation has brought about a highly interdependent global economy – a global village – in which human destinies are more inextricably linked than ever (in the modern age) as we share the world's resources. The need to re-employ the *inclusive* principles of shared responsibility, collective well-being and collaborative productivity as (balancing) building blocks for a truly sustainable economy is rising rapidly.⁵⁰

The importance of shaping a more inclusive, albeit not centralised, economic order should be seen as simply the next logical step in the economy's evolutionary progress. For this, inclusive economic theory is fundamental as a proper theoretical grounding of such an emerging *new economic order*.

5 Genuine economic progress is the net effect of subtracting negative externalities (e.g., social and environmental costs) from growth in gross domestic product (GDP), and adding positive externalities not measured by GDP.

Implications of an inclusive economy

When referring to an inclusive economy, it actually means a fundamental reorganising of society. The economy is arguably the strongest shaper of social organisation, hence the need for gradual or evolutionary change (in terms of its processes and outcomes), yet very intentional and guided. The principle is: If you want to change a system, you have to change the values. So, fundamentally reorganising society through the economy would mean embracing values and processes that include rather than exclude.

Creating economic value from the basis of the interconnectedness of the human economy (as a productive network of relations) and natural ecosystems on which it depends is vital. For instance, *sharing economic* principles places emphasis on the community and a collectivistic consciousness. It is a socio-economic system built around the sharing of resources. Unlike traditional business models, it includes the shared creation, production, distribution, trade and consumption of goods and services by various people and organisations.⁵¹ These systems take on diverse forms, often leveraging information technology to *empower* corporations, individuals, non-profits and government with information that enables distribution, sharing and re-use of excess capacity in goods and services.

The inclusive economy is inclined to low-impact processes of production (to reduce waste) and strengthening interrelationships for higher levels of (inclusive) production. Fioramonti points out that “a technological revolution is advancing a new sharing economy model based on collaboration rather than reductive competition”.⁵² Networks become instrumental. For example, this has led to the emergence of *smart villages* in Africa and Asia, which enable shared renewable energy systems and agroecology or organic agriculture in communities.⁵³ Notably, this has led to increased productive and innovative participation by community members, creating a sense of shared ownership. When innovation lowers the cost of goods and services, it represents a net economic benefit overall.

Social ownership is another development of inclusive economic thinking. It aims to eliminate the distinction between the class of private owners who are the recipients of passive property income and workers who are the recipients of labour income (wages, salaries and commissions) so that the surplus product (or economic profits) belongs either in part to society as a whole or the members of a given enterprise.⁵⁴

Two types exist, *society-wide public ownership*, where the surplus is distributed to all members of the public through a social dividend, and *cooperative ownership*, where the economic surplus of an enterprise is controlled by all the worker-members of that specific enterprise. Factor markets are utilised for allocating capital goods between socially-owned enterprises, thus including autonomous entities within a market economy. A variation of social ownership is *cooperatives*. The latter is a jointly-owned enterprise that is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations.⁵⁵

It may involve either the organisation of economic units into enterprises owned by their workforce (workers cooperative) or by customers who use the products of the enterprise (a consumer cooperative). It may also involve multi-stakeholder or hybrid cooperatives that share ownership between different stakeholder groups. Being democratically owned by their members, cooperatives normally have social goals, which they aim to accomplish by investing a percentage of trading profits back into their communities. A more recent development has been *platform cooperatives* that use, for instance, a cooperatively owned and governed website, mobile app or a protocol to facilitate the sale of goods and services towards socially beneficial ends.

Society does not realise that it has accepted (often unconsciously) a set of behavioural rules dictated by the economic system. The economy has become the most important decision-making system in contemporary societies. This is why, according to Lorenzo Fioramonti, “by changing the economy, we may achieve much more than just a reform of the market; we may profoundly reorganise the world, both politically and socially.”⁵⁶ We fundamentally need a better system of rewards and incentives underpinned by different values. This has been the basis of the rise of what is called “the well-being economy”. Reckless advertising, erroneous policies, misleading statistics and a flawed education system have resulted in conspicuous consumption and competition being portrayed as the key drivers of success.

The well-being economy challenges these values by shaping a new system of social coordination, where people can interact with each other according to principles that are *mutually rewarding*. By connecting self-interest to social benefits, attention to well-being is increasingly becoming a powerful driver of change. It appeals to our natural predisposition not only to thrive individually but also to care

for others and the environment. It is a more holistic picture of what flourishing as a human being means than simply growth and profits.

By implication, these new inclusive principles do not mean that everything about the economy changes overnight. It does mean, though, based on agreement by society (or even by the global community), intentionally and collectively steering the economy towards greater sustainability and genuine progress. It should be a consensus-driven process that aims to create win-win situations through enhancing *collective wealth* (or common wealth). It might mean delays in the short term for the affluent in generating higher returns, but more will be included in the sharing of wealth in the medium to long term. The point we have reached (and the reality we all are facing) is that the world economy cannot afford the alternative: rising inequality (exclusion) and unsustainability. The economy is in need of being reformulated into a more integrative model.

One example of this aim is the emergence of *inclusive capitalism*, an economic system in which the benefits of growth are broadly shared, creating more opportunities for all people to improve their economic status.⁵⁷ It represents the opposite of present-day *predatory capitalism*, making sustainability a main driver of innovation to ensure that social equity and ecological parity not only raise the standard of living but raise the quality of life.

Inclusive capitalism is also a policy movement that seeks to address growing income and wealth inequality in developing and developed economies. Targeted poverty alleviation strategies are prioritised, including improving people's nutrition, health care, education, employment and environment. To a large degree, inclusive capitalism is rooted in what is called "binary economics" (or two-factor economics), which endorses both private property and a free market, but proposes significant reforms to the banking system.⁵⁸ Labour and capital are treated as complementary, while interest-free loans are promoted to fund employee-owned firms to stimulate economic growth whilst widening stock ownership. In this view, freedom is only truly achieved if all individuals are able to acquire an independent economic base from capital holdings. It is believed that the distribution of ownership rights can *deepen democracy*.

Accountability, freedom, innovation and opportunity are essential to such an economic system, which seeks to counter the harmful trend of public trust in government and business falling as inequality keeps rising. More inclusive and equitable capitalism is fundamentally about creating long-term value that benefits all stakeholders: businesses,

investors, employees, customers, communities, governments, members of society and the planet.⁵⁹

As another implication of an inclusive economy, a variation emerging is *conscious capitalism*. It is a form of capital that produces public goods for the common good. The value of resources, both tangible (public spaces and private property) and intangible (role players and human capital), are impacted by their interrelationships. Conscious capitalism is ethically-grounded free enterprise.⁶⁰ Building on the foundations of capitalism: voluntary exchange, entrepreneurship, competition, freedom to trade and the rule of law, it includes trust, compassion, collaboration and value creation as equally important to a healthily functioning economy.

Companies distinguish themselves through their commitments to ethical and sustainable business practices. They focus on creating a new model for business behaviour to *integrate* greater social responsibility into mainstream business practices. They also explore how the power of business can solve social and environmental problems, using the profit motive to create win-win business models. According to Mackey, the wins are “what benefits the company, its stakeholders, and the environment/society in general. This is the only way to optimise value”.⁶¹

In seeking *synergy* instead of conflict, evidence shows that many companies that balance the needs of their stakeholders often outperform those who still follow the classic capitalism model often.⁶² An interesting finding regarding this is that when the focus is placed on behaviour rather than just financial exchange, profit follows, and employees show altruistic behaviour that cannot be bought, sold or traded. This is good for business and the community, a typical win-win situation.

Lastly, embracing an inclusive economy requires a new mode of thinking. Our dominant mode of thinking is antagonistic: we think in terms of *either/or* (e.g., either their business succeeds or mine does). People have always been inclined to group together for the purpose of opposing other groups of people. This means there is even antagonistic thinking in different forms of cooperation. Unknowingly, antagonistic or *exclusive* thinking has been imparted (as part of life) on all humans. Also, without realising, exclusive thinking has a side to it that can lead to the mutual destruction of competing forces (e.g., war can no longer be won; there can only be mutual destruction in a world with nuclear bombs).⁶³ This is even true in economic terms, considering

persisting inequality and poverty that devastate communities as well as ecological degradation and exterminations.

A new mode of thinking proceeds fundamentally from the point of view that *my well-being* cannot be realised at the expense of the other. I can have it only if, at the same time, I advance the well-being of the other.⁶⁴ This type of Ubuntu thinking brings a paradigm shift in economics from self-interest as the primary motivation to a shared interest. This is *inclusive reasoning* and should not be construed as idealistic but realistic. Its intention is not to suggest that it is more noble or nice to advance the well-being of the other but that it is more sensible.

Inclusion brings greater equality (and preservation) of conditions. Inclusion means caring, which can be just as natural to humans in an economic context if we put our minds to it (properly). Martin Luther King confirmed this by exposing the false assumption that self-preservation is the first law of life. *Preserving others* is the first law of life because we cannot preserve ourselves without being concerned about preserving other-selves.⁶⁵ The universe is so structured that things go awry if humans are not diligent in their cultivation of the *other-regarding* dimension. *I cannot reach fulfilment without thee.*

Fully understanding this starts with resetting our *economic minds*, away from a chrematistic mindset (or pitfall, rather). Interdependency is the leading reality of the day. So, to be more in sync, there is a growing sense that it is time for a change. Change in economics may well take the form of such a paradigm shift.

Conclusion

The fact that inequality *excludes* many from participating meaningfully in the economy, especially during the last few decades, placed new emphasis on economic inclusivity and its potential for recalibrating the economy to ensure sustainability. Admittedly, inclusive economics is still an evolving concept, but consensus suggests that prioritising ‘people’ (productive participation), the ‘planet’ (resource management) and ‘preventing economic crises’ (improved sustainability), i.e., the three Ps, are leading components. Inclusive economics does not mean randomly including every aspect of the economy, but only those strictly related to these three Ps mentioned.

A correct understanding of *oikonomos* further helps to demarcate the conceptual interpretation, plus it re-establishes the science back in its original roots of stewarding resources for the collective good. It

means that care and shared responsibility is central to the true character of the economy. Hedonistic capitalism that we see today is effectively a betrayal of the original intention of the economy. The serious missing link at the centre of today's capitalism is a disequilibrium between increased economic interconnectedness and increased isolation/exclusion.

While necessary, orthodox economic theory and its weaknesses, especially that of contemporary neoliberalism, stem largely from being based on idealist rational behaviour theory (*Homo economicus*). In reality, not only mainstream thought but also accepted economic systems have been exposed by irrational deviations in human behaviour and market failures, particularly as a result of escalating economic crises around the world over the past number of decades. The role of heterodox economic theories, therefore, becomes more significant in helping to explain or interpret economic realities.

Institutional economics, especially behavioural economics, contributed appreciably to untying the complexity of the interaction between various economic role players and how it affects markets. A 'third way' started to emerge, together with *fresh perspectives* from ecological economics, evolutionary economics and other branches. What brings it together in a sensible way is inclusive economic theory: An integrated body of economic theory that provides a guiding framework for finding solutions to individual, collective and environmental challenges. As a crucial part of this, neo-realist theory's scrutiny of several welfare- and utility-enhancing behaviours, which is overlooked by other theories, are quite significant, especially in light of its findings that societies where a moral code is more consistently applied are expected to *perform better*. It includes well-being enhancing opportunities for individuals and societies that subordinate markets to the higher cause of communal satisficing based on shared values.

As a synthesis, inclusive economic theory offers a more realistic framework and deeper insight into causality than individual economic theories on their own, creating possibilities for superior economic decision-making and collective progress. The inclusion of both biocentric ethics and shared community values provides a basis for switching the emphasis in economics from money (chrematistics) to focused real-life resource management (*oikonomos*) in an evolutionary – not revolutionary – way.

Ethically constrained optimisation is appreciated in this framework as part of the balancing factors to be included at the centre of economic functioning in favour of overall well-being and genuine

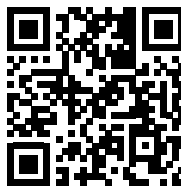
economic progress. Inclusive economic theory, therefore, comprises a more comprehensive approach to economic sustainability in the *global household* (so to speak) that appreciates increased economic interdependencies in a rather decentralised new economic order.

Moving from exclusion to inclusion means effectively reorganising society on the basis of shared collectivist ideals. Ubuntu exemplifies this. The interconnectedness of the human economy (skills and growth in human capital) and natural ecosystems then becomes the *foundation* for creating economic value. With the aid of innovation and progress towards a technological singularity in an unfolding 4IR, a new sharing economy model can take shape in a collaborative context (as opposed to competition only).

Social ownership, like platform cooperatives, especially when based on open-source models, can then facilitate more innovative economic inclusion (new access), thus creating opportunities for consumers to become co-producers, i.e., prosumers.⁶⁶ Improving the system of rewards and incentives in the economy, underpinned by shared values, presents a real opportunity to move towards inclusive capitalism. Getting the economy more in line with the need for social equity and ecological parity will entrench inclusivity in terms of benefiting all stakeholders.

Former President of South Africa, Thabo Mbeki, was correct in stating: “You can’t be an island of wealth in a sea of poverty”.⁶⁷ Systemic change is, therefore, only realistic in an inclusive economic context where win-win situations (real economic value for all) can be created through a change in the behaviour of corporates, individuals, societies and governments towards inclusive collaboration. This is more than just a reform of the market; it is the economy (a social science) *reinventing* itself to reorganise society so that it can function at a higher level of human well-being.

Scan the QR code to access a video on this chapter by the author.



Chapter 2

Inclusive growth

“Growth without investment in human capital is not just unsustainable, it’s unethical.”

Introduction

Sustainable economic growth requires inclusive growth. The former means a rate of growth that can be maintained without the trade-off between rapid economic growth today, and growth in the future, creating major economic problems.⁶⁸ Rapid growth today may exhaust resources and create environmental problems for future generations, so it needs a type of growth that is inclusive, not just in terms of outcome (sustainable development) but also in terms of the growth *process*. In both developed and developing economies, few things matter more to society than growth and stability, yet few things are more contentious.

The growth debate is ages-old, covering many facets, but no consensus exists about growth as an effective indicator of economic progress. In fact, perhaps the limitations of growth providing maintainable solutions to economies are causing systemic failure as regards contemporary capitalism. Growth is often triggered by increases in aggregate demand (e.g., a rise in consumer spending), but sustained growth must involve an increase in output. If this does not happen, any extra demand will push up the price level, causing inflation. This, coupled with growth based on short-term debt (rather than long-term productivity), negative externalities (e.g., pollution and congestion), balance of payment deficits due to rapid growth, and widening income gaps, the sustainability of growth remains unstable and problematic unless the *nature of growth* is addressed through greater inclusivity in the growth process.

This chapter will investigate the qualitative change economic inclusion can bring regarding growth. It will examine the weaknesses of the current growth framework and other related issues. A most intriguing aspect of our global economy is that there is enough food available for no one to be hungry, yet access to food is decreasing as poverty and inequality are rising. It actually reframes the economic

assumption of unlimited needs and limited means. It should rather be unlimited needs and limited *available* means due to distribution and access hurdles.

The acute weaknesses of our economic model were evident even before the global financial crisis (GFC) and the recent global pandemic.⁶⁹ The supposed *trickle-down* effect (benefits for the wealthy that trickle down to everyone else) is simply not working effectively. This poses the pivotal question: *What kind of growth is needed to achieve a better distribution of its benefits or gains?* While not a panacea (cure-all), inclusive growth as the first criterium for an inclusive economy presents some answers to this important question.

Essentially, a new economic framework requires rethinking the meaning of economic welfare and human well-being. Growth needs to be redefined beyond the narrow definition posed by gross domestic product (GDP). An inclusive economy also necessitates a rethink of the concept of *scarcity*: how are assets distributed across the world, and who prospers from that? In addition, for instance, inclusiveness at the global level calls for just tax-transfer systems that focus on *predistribution* rather than redistribution.⁷⁰ These are some of the pivotal elements that will be under the microscope in this chapter.

What inclusive growth is not: Inequality and unfettered growth

The question must be asked why does inequality persist (and even worsen) during periods of growth in economies? Before we answer this question, it must first be acknowledged that not all inequality is detrimental. There is a difference between *constructive* and *destructive* inequality. The former could create positive incentives at the micro level of the economy, such as income concentration needed for rapid growth and investment and incentives for individual effort, productivity and innovation.⁷¹ Such inequality would also be consistent with *equity* (in the sense of differences in individuals' responses to equal incentives and opportunities) and also with the efficient allocation of resources in an economy.

In addition, endogenous factors should be considered where a distinction is drawn between the *deserving* and *undeserving* poor. The former refers to those who are not able to participate in the economy due to uncontrollable factors such as accident, disability, infirmity or old age.⁷² The latter includes voluntary indigent people choosing to be poor due to immoral lifestyles or character defects, including drunkenness, lassitude, work shirking and crime.

So, what we are actually concerned about is destructive inequality, which relates to inequality of opportunity, limited social mobility and inhibition of income growth. It entrenches *social exclusion*, and its persistence decreases the chances of the income gap being closed. Perhaps the most devastating exogenous structural factors ingrained in economic inequality, among others, are⁷³

- Powerful actors whose dominance undermines the development of subordinate people (within countries) and nations.
- Power differentials in social relations that impede social equality, for example,
 - coercive behaviour that limits people's economic choices;
 - inequality of opportunities and security;
 - maldistribution of resources;
 - preventing access to land;
 - limited social mobility;
 - gender inequalities;
 - discrimination against race, class and age; and
 - imposing preferences (e.g., low wages on workers).
- The exploitation of unequal power relations that aggravate the already-unequal playing field, characterised by factors like the
 - digital divide;
 - vicious poverty cycles;
 - restricted access to water or credit;
 - limited human capital;
 - natural resource depletion;
 - information asymmetry;
 - segmented labour markets;
 - social polarisation; and
 - non-delivery of essential services.

The heart of the matter, as pointed out by Alastair Greig et al., is that “inequalities are not simply carefully constructed measurement scales but complex webs of dynamic social relations that privilege some while constraining the life chances of others”.⁷⁴ In attempting to reduce inequality, the aim is not to achieve economic equality, since that is impossible, but to attain both *equality* of opportunity (social justice) and *equitable* economic outcomes. The actual issue here is how wealth is generated and, more specifically, the nature of economic growth in terms of the extent to which it is *at the cost* of the poor and the environment.

The magnitude of inequality at the global level reveals a world excluding many from the economy. Though inequality is a multidimensional concept, François Bourguignon observes that even different types of economic inequality are highly correlated with differences in per capita income across countries. He further alarmingly found that “inequality condemns nearly half of humanity to poverty and has made survival itself precarious for more than a fifth of humanity”.⁷⁵ When we, therefore, answer the basic question: *Inequality of what?* The answer is a fuller picture than simply income disparities; it is the *inequality of people’s capabilities* within and across countries, also reflected in global inequalities of well-being.

A strong consensus now exists in literature (and widely shared experiences) that inequalities work to embed social exclusion and gradually marginalise the impoverished and even the nascent middle classes from growth.⁷⁶ Inequalities, constraining life possibilities and individual agency, limit the economic and social potential of societies globally. That is why growth very often has limited benefits to impoverished people, especially in nearly all African countries.

A 2019 United Nations Development Programme (UNDP) Report identified an *elephant curve* of global inequality and growth.⁷⁷ It indicates that, between 1980 and 2016, the bottom 50% of the world population captured a mere 12% of total real income growth, while the top 1% captured a staggering 27% of total growth. The elephant shape comes from the exponential increase (like a raised elephant trunk) in the income levels of the top 10% income group compared to the rest.

Figure 2.1 shows the comparison between the percentage of world income earned by the richest 10% relative to that earned by the bottom 40% of income earners in the world between 1980 and 2019. Over the last four decades, this income gap has been consistently more than 1 200%, which is astonishing. Making the reality of this situation even clearer by means of direct comparison, in 1980, 443 million people earned 1 264 times more than 1.77 billion people, while in 2019, 771 million people earned 1 208 times more than 3 billion people.⁷⁸ Inequality has clearly created two separate worlds: one of *selective inclusion* and one of *majority exclusion*. Ironically, and giving inequality a skewed perspective, the world’s average GDP per capita increased over this same period from 2 532 USD in 1980 to 11 433 USD in 2019, which makes it wrongly seem as if inequality decreased.⁷⁹

While global per capita income trebled between 1960 and 2000, over 100 countries experienced a decline in per capita income since the 1980s. The Gini index shows a world where, in 2005, for instance, 53

countries (which contain 80% of the global population) experienced rising inequality, compared to only nine countries (containing 4% of the world's population) where a narrowing of inequality occurred.⁸⁰ Between 1980 and 2016, the growth of global income distribution to the top 1% economic elite in rich and poor countries was extremely high: over 200%. This gives credence to Oxfam's alarming claim that, in 2018, the world's 26 richest people owned as much as the poorest 50% of the world's people (3.8 billion people).⁸¹

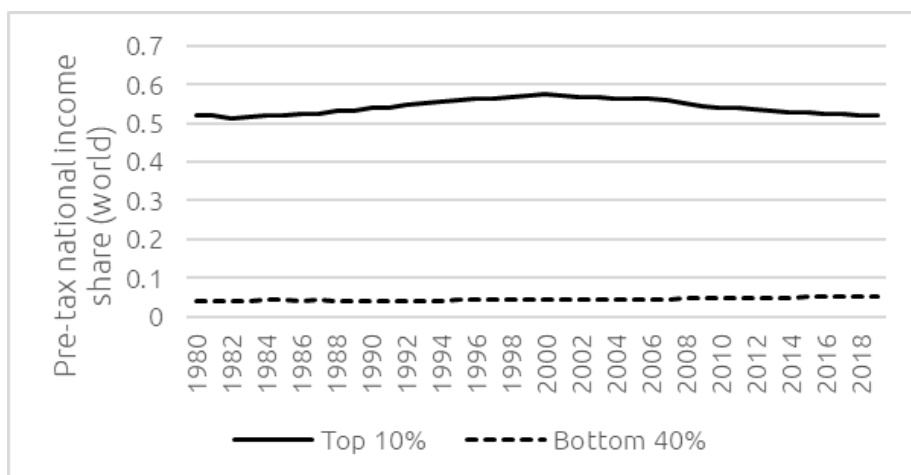


Figure 2.1: Income disparities from 1980 to 2019 (global averages) (Source: Own work and data from the World Inequality Database (WID) 2021)⁸²

No matter how you measure it, the figures show a world that is extraordinarily unequal compared to any national norm. Global inequality is above the highest levels of inequality seen in highly unequal countries (global Gini coefficient was 0.74 in 2020) and arguably above what a national community could bear without risking a major crisis.⁸³ Of serious concern, in light of globalisation, are the increasing *spillover effects* between inequality between countries and that within countries.⁸⁴

The negative effects of excessive inequality on economic efficiency and individual welfare are now proving to be exacerbated by the global COVID-19 crisis. The growing anxiety is that the continued exclusive appropriation of economic progress by a small elite will create an excessive risk to the stability of societies.

Adding to the complexity are other dimensions of inequality and poverty than income. In view of the interconnected nature of global inequality, there exist a vast number of social and political inequalities: differences in access to health services, different educational levels, basic infrastructure and the legal system, and people's ability to participate in public decision-making, to name a few.⁸⁵

As the *interdependency* of economies and societies grows, so do the spillover effects of inequality, often resulting in extreme inequality, which has corrosive consequences. These include deterrence of economic growth, political corruption, weak social mobility (keeping some families in poverty for generations while others enjoy increasing privilege), and health and social problems, which affect the global community as a whole. However, after considering all this information, the *question* remains: how is it possible that in a technologically advanced twenty-first century, where we have solved incredibly complex problems, we have not found answers to the persistence of extreme poverty?

The answer might be found in the kind of economic growth we have pursued for over half a century, a growth that arguably rewards exclusion and thrives because of inequality. The essence of the problem is that the current growth economy remains one-dimensional, meaning all it focuses on is increasing income. Never mind if this happens at the expense of quality of life, freedom, social cohesion and happiness.

It can also be described as a *vertical structure* in which wealth created at the top of the pyramid is expected to trickle down to the lower layers. The separation of production and consumption leaves consumers on the receiving end of the growth process.⁸⁶ Reinforced by GDP as the primary economic measuring instrument, it is *blind* not only to environmental and social costs but also to the positive contribution of non-monetary systems of exchange, such as productive activities occurring in the household or communities. Growth-thirsty governments suppress many informal economic systems, from community markets to street vendors, anything that does not involve credit cards, a bank account or a formal monetary transaction. Highways, shopping malls and cell phones dictate the new social values of modern society; it is all about speed, consumption and evasion of personal interaction, especially in a post-pandemic world. If not part of GDP, as most of the informal economy, it is not recognised for contributing to economic development.

The one-dimensionality of unfettered growth *limits* the development of such alternative economies, which is an important safety net for the poor and many middle-income groups. With inequality rising, the informal economy is becoming increasingly essential to the marginalised and those excluded from formal systems of production and consumption.

The growth-driven economy fails to see how its development can contribute to social development for everyone. The focus is on mega-corporations and capital, disregarding negative externalities such as over-production, resource exploitation, waste and environmental destruction. Government policies then reinforce the *growth mantra*, seeking to replace informal systems like small-scale farming, family businesses, local markets and the unpaid productive work people carry out in and from their households, benefiting their communities. Non-recognition is detrimental to a multi-dimensional appreciation of growth and human well-being. The fact is, if GDP per capita increases but inequality increases markedly, it is *regressive* to any community and unsustainable.

Even the Organisation for Economic Co-operation and Development (OECD) has admitted that a close link exists between increasing inequality and the growth economy across the world.⁸⁷ Well-known economist, Thomas Piketty, has provided data covering two centuries to demonstrate how income inequality rises, even during times of good growth, in the absence of corrective policies, progressive taxation and effective redistribution mechanisms.⁸⁸

In addition, the drive behind short-term growth incurs vast amounts of *debt*, making growth appear more robust. Short-term and private liquid capital inflows (e.g., inflows to stock markets) may cause exchange rate appreciation and inflation reductions, improve consumer confidence and help finance imported goods.⁸⁹ But such debt makes a country increasingly vulnerable to interest rate and exchange rate fluctuations and abrupt halts in the inflow of capital.

This puts a country's future growth at risk. Countries may actually become *poorer* despite a growing economy, which may make the population look better off, but in reality, it is just an accounting charade when resources are exploited at the expense of future generations because resource depletion does not offset investments in human and physical capital. The additional problem is that markets do not work well in terms of *sending signals* (e.g., by offering to lend only at increasingly high interest rates). Hence they do not recognise the *charade* until there is a crisis.

What we *actually need* is an analysis of balance sheets that show a country's physical, human, social and institutional capital matched with its financial liabilities. Then we will know better whether growth is sustainable. That approach is absent in the growth-driven economy.

Developing countries, more so than developed countries, are especially vulnerable under such conditions because a lack of foreign exchange and a lack of savings can limit investment (and growth) tremendously. They often cannot borrow like developed nations due to credit constraints or can borrow only at very high interest rates. Few developing countries can sustain a government deficit of more than 5% for too long.⁹⁰

During a recession, these governments are then forced to tighten fiscal policy and run *pro-cyclical* fiscal policies, thus losing access to foreign exchange inflows, which can create or exacerbate a crisis. Coupled with often weak automatic stabilisers, little buffering exposes their economies to the ripple effects of economic crises. Such constraints on growth point out important macroeconomic interactions between the short and long run.

As seen during the COVID-19 pandemic, increasing levels of debt were incurred to get economies growing, resulting in *debt traps*. Global debt grew by 19.5 trillion USD early on in the crisis, causing global public debt to reach almost 100% of GDP. Rising national/sovereign debt has become a ticking time bomb in the global economy.⁹¹ Growing by almost 8% from the third quarter of 2019 to the third quarter of 2020, total world debt (public plus private debt) reached a high of 281 trillion USD.⁹² This dramatic rise is shown in Figure 2.2, thus highlighting alarming trends that the growth-driven economy tends to fall into, especially during times of crisis.

The roots of failure of the developmental process can largely be traced back to the 1980s (Brandt and Brundtland Reports) and 1990s (First United Nations Development Decade), when growth was openly advocated to be the solution to the overall problem.⁹³ A myopic obsession existed with economic growth only, as a singular factor, to be achieved by emulating the industrialised paths of the *developed* world. The rapid industrialisation of under-developed countries was seen as the only solution.

This overt priority of growth was to the exclusion of other social and environmental factors, which even today remains secondary in contemporary growth models.⁹⁴ While base indicators of human progress are positive, such as increasing life expectancy, falling fertility rates and increasing literacy, they *mask* the problem that such

base threats to human well-being are not universally felt. In fact, they remain concentrated within specific countries and often among specific people groups within countries.

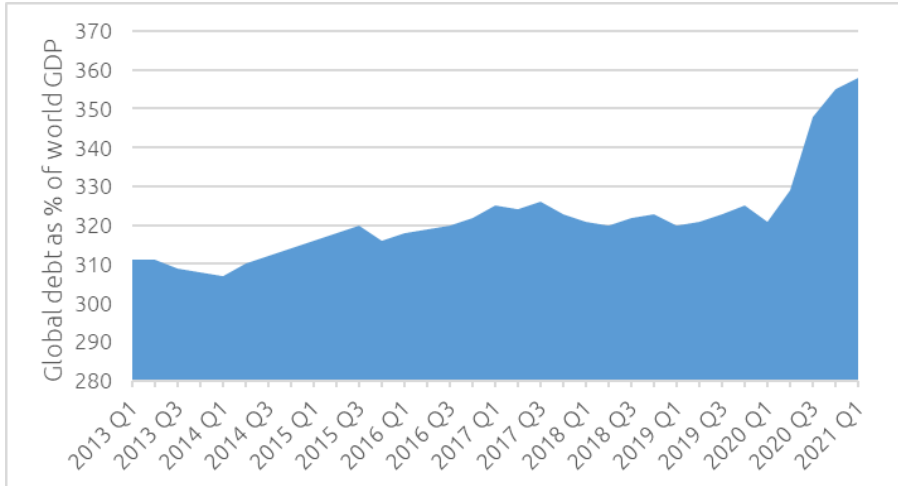


Figure 2.2: Total global debt as a percentage of world GDP (weighted average) (Sources: Own work; data from the International Monetary Fund (IMF) and the Bank of International Settlements (BIS))⁹⁵

A rethink of the developmental process has become necessary. Together with this, a new illusion should not be embraced as the next panacea attempt: Technological advancement as a way to bypass the limits to growth.⁹⁶ Growth has always benefited from technological innovation, but the wrong assumption would be that technology, whether it may involve genetically modified foods, laboratory farms, nanotechnology, artificial intelligence (AI) or robotics, would secure sustainable development (including crossing environmental boundary limits). In fact, it may increase the risk of the *Frankenstein factor* and cause a widening of the class divide (inequality/exclusion) between those who can afford to use the new technology and those who cannot.⁹⁷ It might also be more of a threat than an answer to work security unless it forms part of a more integrated approach based on innovative economic inclusion.

Exploitation and inequality within companies themselves are already of grave concern. The GFC exposed this to the full in the banking sector, in particular, illustrating that the growing wage gap between corporate CEOs and the people who work for them is getting

out of hand. At one time, a CEO was expected to cap his/her salary at about 20 times the annual pay of the lowest-paid full-time employee. Now, the average CEO is paid somewhere in the region of 300 times that of a full-time minimum wage employee.⁹⁸ People at top positions are making vast amounts of money, but real wealth is not being created in the economy to justify that.

The growth-driven economy has ushered in the form of *postmodern capitalism* (compared to modern capitalism), where the ethos of capitalism has changed. Its primary driver is no longer wealth accumulation but conspicuous consumption. Those at the top have developed an insatiable appetite for luxuries and for showing them off on social media.

The economy is no longer built on a stable credit system but on *unsustainable* amounts of individual, corporate and sovereign debt. All aspects of life, including our economic activities, have become compartmentalised rather than integrative. In a fractured era of cultural homogenisation, pre-eminence is given to global brands rather than the quality of products and services. There is little moral accountability anymore, which calls for a complete reform of capitalism and growth.

There is a *hollowness* to growth that urgently needs to be addressed. If one examines the historical progression of economic growth, something profound becomes clear. Between AD 500 and 1500, GDP grew on average by only 0.1% a year (three times more than 1000 years before). Growth then doubled between 1500 and 1700.⁹⁹ The acceleration continued with over 0.5% growth per year. This was unprecedented in human history, and it was only getting started. Exponential growth ensued in the eighteenth century when the industrial revolution gained momentum, and the expansion of the British Empire brought a huge increase in the flow of trade around the world.

Globalisation commenced with speed but moved into hyper-speed when the US emerged as a major economic force. By the time of the First World War, the US overtook Britain as average income levels became 20% higher. Technological advances certainly played their part in accelerating growth, but what really tipped the scales was the 1890 *Sherman Antitrust Act* passed by the US Congress. The act was introduced to prevent trade associations from controlling markets and fixing prices to maximize profits. Ironically, the act succeeded because it failed.

Large companies simply outmanoeuvred the legislation through the creation of mergers and acquisitions. The results were

revolutionary. A few large companies swallowed up rival small- and medium-sized companies, destroying the competition and gaining even tighter control of the market than before (almost a repeat occurred during the global lockdown).¹⁰⁰

This gave birth to the idea that *bigger is better*. Companies of enormous size dominated and outgrew the domestic economy, seeking new opportunities in foreign markets. The age of the multinational arrived, but also the question: has the process of accelerated economic growth become malignant? On the surface, huge benefits appear to be accrued to mankind by the added wealth it produces, but at what cost, and is it real wealth? Digging deeper than the monetary or material level, valid questions arise, such as:

- Is wealth quantitative or qualitative? If it is quantitative, what does wealth cost and does it cost more than it is worth? If it is qualitative, can it be measured economically?
- Does material wealth guarantee the health and well-being of communities?
- If economic growth brings extra material wealth, will it bring greater contentment?
- Does everything have its price, or are some things priceless?
- Is there a difference between price and value? If there is, does price distort value?

The root of the problem appears to be the *mechanistic materialism* shaping the kind of growth we have. Man, as *Homo economicus*, exists for consumption, having been reduced to *economic units* or integers of production in a *covetous machine*. The health of persons, communities and the land itself may be sacrificed so that desires can be satisfied more quickly, more cheaply and more efficiently. There is a paradox to prosperity, identified by a 1999 Report from the Henley Centre.¹⁰¹ It predicted that rising prosperity in the new millennium would be accompanied by worsening social turmoil.

Risks relating to social disintegration indeed became more evident through higher levels of workplace stress, broken marriages, worsening drug dependency and increased loneliness. Considering only two events within the first two decades of the new millennium: the 2007–2009 GFC and the 2020–2022 global pandemic, it appears they were not far off. The paradox is, therefore, that income prosperity does not take away human suffering; it simply changes the type.

Also, considering the far-reaching consequences of growth on both the biosphere and *sociosphere*, its net effect on human health

and happiness, despite the abundance of goods and services, could be adverse and possibly disastrous.¹⁰² Preoccupied with gaining short-term benefits, it seems that the profit motive in the hands of large corporations has distorted the effects of growth, putting the whole system of modern-day capitalism in jeopardy. Many of them end up being the type of capitalists who knows the price of everything but the value of nothing.

This kind of short-sightedness (also called “perverse growth”) has led to an inherent flaw in the methodology of conventional economics: The failure to recognise humanity’s ultimate dependence on the natural world. The profit motive (or profit imperative) neglects the fundamental reality that secondary goods (manufacturing and services) are utterly dependent on primary goods (raw materials). Depletion of the latter means depletion of everything.

Making it worse is that the market is blind to such distinctions. For instance, any activity can be deemed *economic*, even if it severely pollutes the environment, as long as it shows a profit, whereas a competing activity which, at some cost, protects and conserves the environment will be *uneconomic* if its profits are lower. Also, the worship of the price mechanism adds another flaw to how economic growth is measured. Richard Douthwaite exposed this in his book, *The Growth Illusion*.¹⁰³ Any economic activity that does not involve a monetary transaction is not included in GDP growth, whereas any activity that involves the spending of money is included even if it has a detrimental effect in socio-economic terms.

This produces a misleading view of what is *economic* or contributes to a *healthy economy*. Preparing meals at home is less *economic* than eating at a restaurant, for instance. More economic growth will be recorded if everyone employs builders or garages to do do-it-yourself work. Caring for elderly or disabled people at home is less *economical* than having their *price* measured in a nursing home.

When more prisons are built, more people are employed in the police force to fight rising crime, more is spent on personal security, and more people are addicted to tobacco (or even drug abuse), it contributes to GDP growth, making us all *wealthier*. How ridiculous is that? Such absurdity has brought an irrational distortion of what true wealth and well-being in society mean. Growth-*worshipers* may know how to count but have forgotten how to see.¹⁰⁴ They have forgotten that it is not the number of things possessed but the quality of life lived that matters.

Even on the issue of global free trade, which is seen as an unquestionable moral dogma enshrined at the heart of the modern economic theory, doubts are increasingly emerging about whether free trade is always good (and limits to trade are always bad). For decades, for instance, the cost to the rest of the world of carrying the burden of American consumerism has shaped ecologically irresponsible *growth paths*. Now the Chinese and other fast-growing economies are following suit by placing similar burdens on the rest of the world and have begun demanding their own share of the earth's disappearing resources.

With the United Nations, World Bank, World Trade Organisation (WTO) and the International Monetary Fund (IMF) encouraging developing countries to follow the growth-example set by advanced economies, what will happen when global free trade transforms that part of the world into happy consumers? The disturbing answer is that they will require 674% of the world's finite resources, nearly seven times more than are actually known to exist.¹⁰⁵ And this still excludes the added pollution that those billions of extra consumers will produce. Hence, we might have a world of global consumers, but not as conventional economists intended. The globe itself, or life on it, could be consumed. Shockingly, this literally means that the world can actually not afford all economies to grow; never mind, grow fast.

When Nobel Prize-winning economist, Maurice Allais, illustrated in 1993 in Paris that free trade was not, in general, beneficial but only when conducted between regions which were at comparable levels of economic development, it shook conventional wisdom to the core.¹⁰⁶ The fact that Europe just after that entered into a sharp recession at a time when barriers to trade within the European Community were lower than ever before made his argument even more plausible.

Evidence has shown that with rapid technological innovation, it is possible, even likely, that the globalisation of trade will *destabilise* the industrialised world while at the same time exacerbating the problems facing the developing world.¹⁰⁷ Competitive forces inherent in free trade also leaves multinational corporations (MNCs) with little choice but to move production to countries where labour cost are lower, thus putting workers in rich countries in direct competition with comparatively underpaid workers doing the same work in developing countries. Unemployment rises in developed economies while *not much* extra wealth is bestowed on the developing country populations, given that in most cases, a small handful of people control the majority of the nation's resources.¹⁰⁸

MNCs are the only real winners, expanding their market size and benefiting from an inexhaustible supply of cheap labour. Gaining the most, MNCs are the greatest champions of free trade. The globalisation of the market is crucial to them, both in order to produce cheaply and to sell universally. Disquietingly, free trade furthers the combination of the availability of cheap imports and easy access to credit for consumers, luring them into spending what they have not earned.

By living on borrowed money, consumers *do not realise* that ultimately, the real cost of cheaper goods is that many may lose their jobs, most will get paid less, and all will be taxed more to cover the cost of increased unemployment and the accompanying mixed social problems. It is concerning that free trade overtly adds to the risks associated with a consumption-driven economy. More implicitly, perhaps, is this economy's most cunning *trick* of regarding everything only in relation to trade.¹⁰⁹

Then there are factors such as *immiserising growth* (distorted growth), where economic growth could result in a country being worse off than before the growth. Not that trade itself is detrimental, but if growth is heavily export-based, it might lead to a weakening in the terms of trade in the exporting country.¹¹⁰ This fall in terms of trade may be so large that it outweighs the gains from growth, causing a net decline in the welfare of a nation. Note that a worse terms of trade do not necessarily imply immiserising growth: If trade accounts for 20% of national income, the terms of trade have to worsen by over 5% for each 1% growth of output for growth to be immiserising.¹¹¹

It may also occur when an increase in economic activity is associated with a fall in real living standards. An example of this is where greater inputs of labour (e.g., more workers and/or labour hours) or capital, land or any other resources have an *opportunity cost* as they are being used more and more in the production process. This may also happen to a group of countries specialising in exporting a product in inelastic demand, for example, oil exporters; the loss is shared by countries exporting similar products. Other negative factors related to economic growth include:

- The use of non-renewable resources (once coal and oil are used up, they cannot be replaced);
- persisting current account deficits (risk of currency depreciation and more borrowing);
- The social costs of growth (e.g., longer working hours, prioritising income and wealth over promoting public goods that are better for the environment, and health problems);¹¹²

- Creating winners and losers with job loss in primary sectors due to growth in secondary and tertiary sectors (e.g., from agriculture to manufacturing and services); and
- Creative destruction (growth is brought about by the introduction of new technologies and the creation of new firms, thus replacing firms and technologies currently in existence).

All this does not mean economic growth is unimportant or that growth should not be a high priority. In fact, research shows that with a growth rate of 2.5%, incomes double every 28 years, and with a growth rate of 3%, they double every 23 years.¹¹³ But what is being challenged is the *growth-only* focus (or growth obsession) on economic progress and policy-making and the overemphasis on growth targets to achieve economic development. Also, the *nature* of growth is questioned, plus that which makes growth unsustainable. Growth and stabilisation are important to any economy, but more focus areas and mechanisms are needed to create broad-based stabilisation; otherwise, it is short-lived and/or unsustainable. This is where inclusive growth comes into the picture.

How is inclusive growth different?

Inclusive economic growth promotes equal opportunities for all economic participants during the growth process, with benefits incurred by every segment of society.¹¹⁴ For growth to be sustainable and effective in reducing poverty, it needs to be inclusive. The concept of inclusive growth evolved out of a *shift* in development thinking, away from seeing equity either as a burden on growth or as a by-product of growth that only sets in after first being eschewed in favour of growth, towards an understanding that not only is growth plus equity possible but also that growth, poverty and inequality reduction can be instrumental to each other. This is a major change.

The Commission on Growth and Development highlights that *inclusiveness*, a concept that encompasses equity, equality of opportunity (access to markets and resources), an unbiased regulatory environment, and protection in market and employment transitions, is an essential ingredient of any successful growth strategy.¹¹⁵

From a microeconomic perspective, it involves the realisation of structural transformation for economic diversification and competition. From a macroeconomic perspective, it refers to changes in economic aggregates such as the country's gross national product (GNP) or GDP, total factor productivity and aggregate factor inputs.¹¹⁶

In essence, inclusive growth is a *multi-dimensional* appreciation of growth, shying away from one-dimensional thinking.

Contrary to the vertical trickle-down structure of the traditional growth-driven economy, inclusive growth follows a *horizontal structure*. Operating as a network, it builds resilience against external shocks through a system of nodes to avoid cascade effects and systemic risk (domino effect).¹¹⁷ It is integrative so as to locate systems of production and consumption within the broader biosphere (linking consumption logic and the real sources of the things we need to survive, like oceans, land and rivers). It gives preference to *low-impact* processes of production, small-scale economic development and the extreme reduction of waste.

Relationships in such a human-centered economy are *valued* and not forfeited in exchange for a mere consumption experience. Consumers become active (as opposed to the current passivity) and participate in the production process, i.e., they are not just on the receiving end of the growth economy. Real human connections are reintroduced to counter the impersonal relationship that currently exists between consumption and production.

In this horizontal structure, participants are empowered in an integrated network of *redefined* roles and functions as they sculpt new forms of productivity and economic utility. For example, consumers become *co-producers* (i.e., prosumers) through entrepreneurial initiatives (e.g., Uber, eBay and Airbnb) and *open-source* production (e.g., Linux and Wikipedia).¹¹⁸

The aim is to increase human well-being by strengthening social and natural/ecological capital while generating sustainable development. An inclusive economy endorses a holistic approach to development and growth, taking both the positive and negative impacts of human activity into account so as to improve collective well-being. The latter could be interpreted as the sum, or average, of the well-being levels of individuals who are part of the collective/community. This will determine the state or level of collective well-being.

As a way to pursue it, community social capital and its maximisation could furthermore serve as a *predictor variable* for increasing collective well-being.¹¹⁹ Hence, new opportunities for how people can participate in the economy are opened up.

Economic power is decentralised, which is different from the current framework where MNCs, banks and governments dominate key economic decision-making (and profit-taking). The *growth dividend* is shared more equally as greater emphasis is placed on local

economic development.¹²⁰ The dividends of increased prosperity, both in monetary and non-monetary terms, are distributed fairly across society. Communities are set to become pioneers in the transition to a new economy.

Established economic and political distinctions between *capitalists* and the *working class*, *proprietary* and *public*, *market* and *public sphere*, will become redundant in a more integrative framework. It will support and value a wide range of roles performed by every individual, not only as a worker but also as a parent, caregiver, maker or community leader. These roles will carry both monetary and social rewards, well beyond the reductive category of *jobs*. Women upon whose unpaid and undervalued contribution the economy has been free-riding will emerge as the main beneficiaries of well-being-based progress.¹²¹

In the context of *oikonomos*, families play an integral part in the inclusive growth network, becoming a locus of collaboration rather than of segregation. Families, communities and small businesses become the real drivers of development. Breaking with traditional social roles, individuals have already started to develop new forms of productivity and economic utility. The very *definition of work* will change as human beings become productive in ways that transcend the traditional framework of paid employment. Even the United Nations confirmed that the real wealth driving development across the world is not produced capital (that which growth measures) but human and natural capital (which growth overlooks).¹²²

Independent yet interconnected communities become more self-sustainable in inclusive growth's horizontal structure. For example, decentralised renewable energy systems like microgrids or off-the-grid solutions are changing the notion that power supply must be centralised. The emergence of *smart villages* testifies to these new localised systems of community management where the production of goods and exchange of services are integrated across households. Sharing across the power grid and bypassing traditional monopolies, this innovative model transforms informal exchange into a very efficient driver of collective well-being and prosperity.¹²³

Agro-ecology and organic agriculture are further examples of what is being valued in this network model. It is closely linked to Ernst Schumacher's idea of establishing an *agro-industrial structure* in rural areas and small towns, bypassing overconcentrated mega-cities.¹²⁴ As a preference, this comprises millions of small workplaces, each employing relatively few people in labour-intensive enterprises. The

emphasis is not placed on output per person, as conventional growth rationale dictates, but on providing work for people.

If workplaces can be close to people's living areas, be highly affordable, production is from local materials (and in the first place is *for* the local economy), and the work is simplified (without the need for complex training), it can unlock enormous potential in rural areas. These areas are also less subject to inefficient bureaucracy and the powerful vested interests that hold sway in metropolitan areas. Having said that, it is possible, though, to also implement these approaches in *smart cities* or new areas in close proximity to modern cities.

Ideally, and central to this approach would be a reconsideration of the role of money. The current system is highly centralised, giving banks control over the money supply through the issuance of credit.¹²⁵ When money is derived from credit, it requires nonstop growth to pay itself off in the vertical structure, resulting in the never-ending treadmill of escalating transactions. The money system will need to *evolve* as new legitimate systems emerge into a more distributed model that would see the emergence of community banks and localised monetary systems that are part of a local-level network of finance.

These systems can be backed up by gold, silver or any other commodity of consistent value, thus creating real monetary value, not more fiat money. Local, debt-free currencies would stimulate community economies. Even a national network of currencies could replace the traditional notion of a single national currency, enabling communities to trade with each other (and communities need not be interpreted as geographical only). A complementary monetary system of credible cryptocurrencies (or similar/alternative methods) could be integrated to facilitate the global interchange of ideas and knowledge (also known as the 'light economy').

An interesting element of the inclusive growth economy is its capacity to trigger social innovation in response to crisis convergence, such as environmental degradation, mass migration, rising inequality and resource depletion. Experimental initiatives are mushrooming around the globe. Technological innovation is shaping a *sharing economy* model based on collaboration rather than reductive competition.¹²⁶ An information-sharing revolution comprising *out-of-the-box thinking* is taking effect at a scale the world has probably never seen before. Both advanced and developing economies are impacted by phenomena such as Lyft, HomeToGo and Etsy.

A revolution of business through peer-to-peer (P2P) platforms like these and many others is a form of *creative disruption* (not

destruction) of the market, turning consumers into producers. Not just software (e.g., Linux) but also hardware is being transformed. 3D printers, for instance, enable small producers to interact with their customers in the *co-design* of products at a much lower cost and with very little waste. Mushrooming collaborative networks, together with the emerging Internet of Things (IoT), will fast-track the conversion of putting dormant aspects of the economy into productive use. This form of inclusive thinking will mark a U-turn away from the extractive model of growth.

Putting technology at the service of the masses, Mahatma Gandhi proclaimed that what the poor needed was not mass production but *production by the masses*. Schumacher called it “intermediate technology” to signify that it is vastly superior to the primitive technology of bygone ages but also simpler, cheaper and freer from the super-technology of the rich.¹²⁷ It is technology with a human face, a *people’s technology* to which everybody can have access and which is not reserved for the elite only.

It is highly conducive to decentralisation, eco-friendly, and designed to serve the human person instead of making them the servant of machines or mere cogs in the *growth machine*. In the inclusive growth economy, there is no place for machines that concentrate power in the hands of a few. Machines, using appropriate technology, are to serve the abundant supply of labour, not replace it. In this way, the system of production by the masses mobilises the priceless resources which are possessed by all human beings (their clever brains and skilful hands) and supports them with first-class *tools*.

This is truly empowering, not just a bit of extra income to the wage earner, as in the case of mass production. It represents a fundamental reorientation, giving a new direction to technological development, leading it back to the real needs of humanity.

As such, inclusive growth represents a new kind of growth that gives a true definition of what a *healthy economy* is. The pressures being put on the planet (ecological limits) and on people (exclusion and survival) by the greed of the *overdeveloped* (obese) parts of the world and segments of society results in an unhealthy – despite growing – economy. On the contrary, inclusive growth is the kind of growth that is only considered beneficial by the receiver or business if it benefits the wider community, or the collective, as well.

As articulated within the Sustainable Development Goals (SDGs), inclusive growth combines growth with social aspects, emphasising the need to share economic growth with the poorest in a reciprocal

context (shared benefits). When growth is truly inclusive, sustainable development would be a natural outcome. This means utilising every productive component optimally in the production process by way of inclusion, not exclusion/filtering.

One analogy¹ is that of a *blossoming tree*, which does not use exclusion to grow, but rather expansion (inclusion). This type of *organic growth* is multi-directional (in that all cells, in other words, productive units, contribute) and not just one-directional profit-seeking. Growth and replenishing, therefore, go together in this broader concept of growth, thus ensuring sustainability and exponential growth potential.¹²⁸ All participants in the production process are valued and equitably rewarded.

For instance, what applies to the environment applies in a similar way to human work: If we do not take care of it, if we treat it only instrumentally, then inevitably, we have created a fundamental economic loss. Human labour is more than a means of production or just another economic object; it is an *object of care*.

Through building an economy of care, inclusive growth helps to redirect (not negate) the profit-driven emphasis toward organic growth principles in a shared responsibility economy.¹²⁹ Profit is important, but this means more than just investing in people (workers and community members); it means *including* them in a participative process. Growth is pursued but with a holistic human-centred focus, not a singular profit-centred focus.

Jaggi Vasudev puts it into perspective by highlighting that “big business is not about profit but expansion; expansion is inclusion. Inclusive [growth] is a way of empowerment of the whole of humanity to participate in a robust and all-inclusive economic process” (including quality education and health care leading to growth).¹³⁰ This opens the way for a *faster rise* in poor people’s well-being than non-poor people. It also minimises the negative externalities associated with growth that, in the long term, reduce a country’s trade competitiveness. Organic expansion-growth increases the probability

1 The blossoming tree analogy of growth is contrasted to a traffic tunnel that squeezes everything in one direction, i.e., every car tries to get to the end of the tunnel (*profit*) ahead of others as quickly as possible. Note that the tree analogy does not exclude competition but complements it by emphasising the natural *in-built formula* in the tree (representing a community) that ensures consistent growth, replenishing (sustainability) and collaboration for better competition.

that export earnings will increase faster than import costs due to the added diversification of a country's economy.

Contrary to the hyper-growth approach, the inclusive growth approach takes a longer-term perspective, as the focus is on productive employment as a means of increasing the incomes of poor and excluded groups and raising their standards of living. It refers to both the pace and distribution of economic growth; not that it promotes slow growth, but rather *broader growth* (and *deeper growth*, i.e., better quality growth; growth that last and growth that leads to inclusive development).

According to Joseph Stiglitz, "it is about broadening the growth base; about addressing the social characteristics and economic fundamentals of human well-being, not just welfare."¹³¹ Whereas welfare mainly refers to income, *well-being* is a more holistic concept. Coulthard et al. define it as "an outcome that is continuously generated through conscious and sub-conscious participation in social, economic, political and cultural processes".¹³²

Since the emphasis here is on sustainable development, it is important to lastly point out that inclusive growth is not just another description of economic development. While the latter focuses on the sustainable outcome of growth or *what follows growth*, inclusive growth focuses on the process of economic growth in an economy, attempting to solidify/buttrese/entrench the wanted sustainable outcomes.

What are the components of inclusive growth?

The different facets of inclusive growth are all geared toward reducing inequality, employment creation, stimulating eco-friendly innovation, poverty alleviation, and developing productive capacity and overall well-being. A more equal distribution of the gains of growth is an *unvarying goal*. The components of inclusive growth portrayed in the diagram below can achieve this goal. For growth to, therefore, be inclusive, it must be pro-poor, broad-based and shared among all involved.

Pro-poor growth

As a direct response to the deficient trickle-down effect in the economy, pro-poor growth focuses specifically on the outcomes of growth with regards to its effect on the income of people trapped in poverty. This can either be in terms of relative poverty (i.e., when the poor's income improves relative to the non-poor) or in the context of absolute

poverty (i.e., when fewer people end up below the poverty line). As part of the pro-poor strategy, Klasen identifies two distinctive features of the inclusive growth process: it must be expressly *non-discriminatory* and, at the same time, expressly *disadvantage-reducing*.¹³³

Pro-poor growth is a growth process that enables the poor to actively participate in and significantly benefit from economic activity, removing all relevant hindrances in an economy. Poverty reduction (i.e., a lower poverty rate) and the reduction of inequality (level and distribution of income) are tandem priorities aiming to increase the poor's benefit-sharing from growth in the economy.

This means growth processes need to be *calibrated* for pro-poor growth to be obtained; that is, fewer people trapped in poverty plus higher income for the poor (relative to the rich in terms of income growth). For this to take place, both a distributional shift is necessary and more of the poor need to be *included* in income-generating processes.

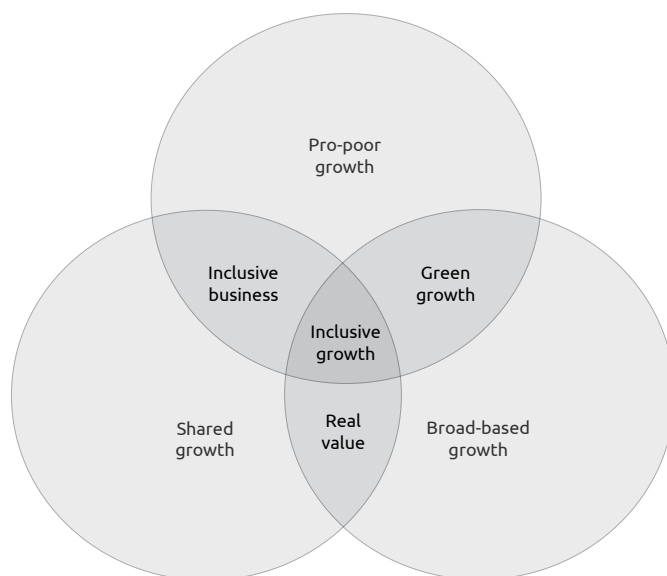


Figure 2.3: Components of inclusive growth (Source: Own design)

For poor people's income to grow at a higher rate than average income, it requires that their share of incremental income exceeds their current share of income (it increases poor people's income while reducing relative inequality).¹³⁴ In alignment with this, economic growth that brings changes to the distribution of income is the kind of growth to be pursued. So, the more growth promotes redistribution, the more pro-

poor it is. This also requires that the poor's share of *incremental income* exceeds not simply their current share of income but also their share of the population.

This will ensure that the distribution of incremental income contributes to a faster reduction of the gap between the income shares of the poor and non-poor insofar as such distribution surpasses – in favour of the poor – total equality in the distribution of incremental income.¹³⁵ For instance, China's growth in recent decades would not be fully considered pro-poor, even though from 1981 to 2019, it reduced its poverty rate from 97.8% to 0.6%, lifting about a billion people out of poverty because there was a simultaneous increase in inequality during this period.

Achieving pro-poor growth means removing all institutional and policy-induced biases against the poor, as well as the *adoption* of direct pro-poor policies. Ideally, governments should combine this with a growth-maximising basic policy package, including property rights, fiscal discipline, macroeconomic stability and international trade.¹³⁶

The goal is to *enable* poor people to participate in, as well as benefit from, the growth process. Even non-income dimensions should be considered. Measures of education, health, nutrition and general welfare are regarded as important in assessing the *character of growth*; that is, whether or not it is pro-poor. Seen as central capabilities that constitute core outcomes of well-being, these areas of human capital development are also vital for greater inclusion of the poor in income-generating opportunities.

The fact that the *income-poor* are not automatically the ones that benefit most from growth in social indicators provides further reason for ensuring that non-income dimensions be made integral to policy-making.¹³⁷ Pro-poor growth, notably, also means the benefit of the poor helps increase benefits for the richer.

Broad-based growth

The concept of broad-based growth first came into usage in the *World Development Report 1990*, describing growth that involved a range of sectors across a country's economy. As part of the World Bank's definition of inclusive growth, it is explained as growth that is "broad-based across sectors, and inclusive of the large part of the country's labour force".¹³⁸ The aim is to involve more poor and disadvantaged people in the growth process through productive employment (producing goods and services).

This relates to the concept of *employment-intensive growth*, meaning that at any given level of growth, the economy needs to become more labour-absorbing. Government policy and even state intervention become strong mechanisms for achieving this, especially in the areas of agriculture and manufacturing. It may also include public investment in infrastructure to stimulate both new opportunities in *growth sectors* and new employment opportunities in sectors that struggle to grow.

Broad-based growth also furthers greater access to non-income aspects of well-being, supported by proactive state policy-making and contributions from other stakeholders. In this sense, *broad-based* also refers to growth that includes major income groups, ethnic groups, and women, and that significantly reduces poverty. Three specific indicators relating to broad-based economic growth can be identified:¹³⁹

- *Participation*. Promoting economic growth should involve and enhance the prosperity of people throughout the productive sector, especially micro-entrepreneurs, small business owners, smallholders, and members of cooperatives. Participation also means more market access to smaller economic role players, as well as developing well-functioning markets, especially through support for policy reform and institutional strengthening. Access to productive opportunities for the poor and other marginalised groups is vital, particularly through support for micro-enterprises and improvements in land tenure.
- *Institutional development*. Public and private institutions are most needed for managing economic development processes. Not necessarily more, but better, institutions should be the objective; legal codes that are more coherent; courts that can enforce their decisions; and bureaucracies that are more effective and more responsive to the individual.
- *Sustainability*. The growth that depends on constant infusions of grants/subsidised financing from abroad and disregards the degradation of the natural resource base is inherently unsustainable. Sustainability entails *transformations* such as:
 - The workforce must become healthier, better educated and more inclusive (e.g., increases in productivity that do not rely on the increased exploitation of workers);
 - generating technology appropriate to local needs, as well as policies and institutions that facilitate the transfer and adaptation of technology from abroad;

- the transformation of subsistence farming into productive, regenerative agriculture that can create surpluses and increase rural incomes sustainably;
- it depends upon a viable urban sector that can create jobs, provide essential services, accommodate migration, stimulate productivity; and
- sustainability mandates the greater involvement of individuals and communities in the decisions that affect their well-being (i.e., inclusive governance).

Lastly, broad-based growth may also include the concept of *growth through redistribution*. This depicts redistribution as a positive-sum game and assumes that redistribution may generate economic growth, that the negative trade-off between growth and redistribution may not always be as significant as normally suggested, and that economic efficiency gains could, in some cases, outweigh losses.¹⁴⁰

This is in stark contrast to the conventional perception of *redistribution through growth*, which assumes a distinct negative trade-off between growth and the redistribution of income and wealth. Jonathan Ostry et al. completed an extensive IMF study in 2014 and found that only in extreme cases does evidence show that redistribution may have huge negative effects on growth.¹⁴¹ The combined direct and indirect effects of redistribution, including the growth effects of the resulting lower inequality, are, on average, *pro-growth*.

In fact, the lower the level of inequality, the faster the growth in the economy and the more sustainable that growth. They found that redistribution (by means of taxes and fiscal transfers), which reduces inequality as measured by the Gini coefficient by up to 13 points, is beneficial for growth. A number of factors could contribute to this, such as:

- The poor spend less on imported goods than the rich; thus, they spend more on local goods, supporting local manufacturing production.
- Redistribution from people with a relatively high propensity for saving to those with a relatively higher propensity for spending would stimulate overall demand in the economy.
- Income redistribution can be achieved via changes in the level or structure of aggregate demand, often at a low cost.¹⁴²

In the end, the *nature and quality* of redistribution are crucial. Whether redistribution in practice would be to the benefit or detriment of growth is an empirical question. Due to the reality of trade-offs, one

would be cautious about drawing definitive policy implications from, for instance, cross-country regression analysis as different types of policies have different effects in different countries at different times.

Without making overconfident statements about the causality between growth and redistribution and solving the *growth dilemma* through redistribution, there are a number of recent developments² that present good testing grounds.

One example is *Special Economic Zones* that bring structural transformation in economies and cause local industry spill-overs. The integration of emerging local firms into the value chain and industrialisation growth path must be a key outcome monitored by these industrial parks.¹⁴³ This inclusive approach requires that governments help to build local firms' capacity to meet quality standards by using their finance, subsidy and incubation instruments to link the expectations of firms operating in these zones and emerging local firms' output.

This is a classic case of a *redistribution of investment* where investment levels are raised, and its composition shifted towards areas where it would be most productive. The thrust of *growth through redistribution* strategy should be to redistribute resources that will facilitate the expansion of employment and output amongst people marginalised by processes of capitalist development.¹⁴⁴ As such, this may involve redirection of investment to raise the incomes of the poor and redistribution of consumption.

Shared growth

The World Bank defines shared growth as “economic growth in which a significant share of poor people improves their well-being by contributing to and benefiting from the growth process”.¹⁴⁵ It is aimed at ensuring that the *fruits of growth* are shared in such a way that it eradicates poverty and drastically reduces income inequality. The emphasis here is on the *redistributive* aspect, but it is in the context of first economic growth firstly occurring then the sharing of its benefits must follow. It is less concerned with the nature of the growth process and more focused on the importance of *continuity* (from growth to sharing). Shared growth is anchored in high and sustainable growth to create good employment opportunities and social inclusion to provide

2 Apart from Special Economic Zones, there are Renewable Energy Development Zones and various new tech markets.

equal access to opportunities. It is focused on improving people's quality of life as they participate in production.

As articulated in his book, *Shared Growth: A Choice for the Future*, Professor Chung Un-chan underlines that shared growth literally means "growing together".¹⁴⁶ It involves the use of resources to the benefit of the majority and taking into consideration the needs of the many. Shared growth, aiming for a win-win situation, focuses on development that is sustainable over time as a result of being inclusive, i.e., representative of a population.

This does not necessarily require that income distribution become more equal and may even be achieved with income distribution becoming less equal if growth is sufficiently rapid. The main criterion here is that growth brings significant and *sustained* poverty reduction and improvements in well-being among disadvantaged groups over a relatively short space of time. Unlike other forms of inclusive growth, shared growth balances the time horizon aspect by emphasising that despite inequalities that may still exist, ways must be found immediately to share growth in the short term. It has both a pragmatic dynamic (finding ways to share any surpluses productively) as well as a care/nurture dynamic to *steward goodwill* that is currently available among members of society in the interest of the common good³.

What makes this unique is that shared growth combines rapid-growth approaches with placing emphasis on the importance of taking care of the community, shaping a collectivist consciousness. It fosters increasing productive participation by community members and creates a sense of *shared ownership* – even if it simply means increasing the value of the common good. This is Ubuntu.

For this to happen, networks and access become of vital importance. Emphasising flexibility and freedom from debt burdens in building a sharing economy brings a shift in that access to goods and services becomes more valuable than owning them.¹⁴⁷ *Inclusive access* becomes the basis for trading, not just/necessarily ownership.

3 The *common good* is that which is to the advantage of everyone in a community/society; that which comprises the shared interest and raising the value of shared assets/resources; and when people work together (collaborate) for the benefit of everyone. It is anything that is naturally and beneficially shared by all members of a community and include terms like: common wealth, public benefit and general welfare. The common good is the sum of those conditions of social life which allow social groups and their individual members relatively thorough and ready access to resources.

Collaborative networks come into existence through which citizen-users can directly and rapidly exchange goods and services as collaboration depends less on mediation. This reduces the demand for materials and assists in *managing waste* much better, thus stimulating economic growth in alternative ways. Satell explained it eloquently: “Rather than assets managed by centralised organisations, we have ecosystems managed by platforms. Capabilities are no longer determined by what you own or control but by what you can access”.¹⁴⁸

Growth, therefore, becomes a product of successful collaboration and not only that of profit-driven competition. The concept of *benefit-sharing* is significant here, both as an outcome and a stimulant of growth: Firstly, the degree to which growth causes poor people’s income to rise faster than that of wealthier people and the extent to which inequality decreases is a direct indication of benefit-sharing. Apart from changes in the formal economy, this may be in the context of alternative markets and employment created in the informal market by more conscious business practices and/or by *new opportunities* created for the poor as a result of increased collaborative efforts by a community.

With approximately 72% of independent workers now preferring to be employed as contract workers instead of traditional employees, the labour market is becoming flexible enough to explore such new opportunities.¹⁴⁹ It also helps consumers earn money by renting out under-utilised goods or resources. Benefit-sharing enables more sustainable use of resources. These are just a few examples of benefit-sharing, also called “shared prosperity”, which the World Bank measures as the annualised growth rate in the average consumption or income per capita of the poorest 40% (the bottom 40) of the population in a country.

Secondly, benefit-sharing involves participation in terms of how society is part of the process, given that such involvement is crucial for promoting social coherence and for capacity-building, which are critical for the sustainability of an inclusive growth process.¹⁵⁰ Employment ratios as a proxy are the primary indicators for participation. Raising the involvement of society in benefit-sharing, *investment in social infrastructure* ought to be an integral driver of growth. These are investments in education and lifelong learning, health and long-term care and affordable, accessible, energy-efficient housing that enable goods and services to be provided. Results may be tangible and intangible in the community, but it builds capacity for increased collaboration and new employment opportunities.¹⁵¹

It also has the *added benefit* of portfolio diversification for investors, given its low correlation with other assets and low volatility of returns (less exposed to market risk and systemic risks within capital markets). Notably, it contributes to building a climate of political stability and social cohesion, which are paramount for sustainable shared growth.

Inclusive business

While the above three types of growth can be considered as the main components of inclusive growth, the following three aspects are secondary, yet equally important components that provide evidence of growth being inclusive: The first indicator is that of inclusive business. Corporate social responsibility (CSR) was the initial movement in terms of adding societal focus to business, but it is not enough to truly make business more inclusive. In fact, evidence suggests that it only soothed the conscience of excessive profit-taking, leading to exploitation in other areas.¹⁵²

Piketty warns that when the rate of return on capital is *greater* than the rate of economic growth over the long term, the result is a concentration and unequal distribution of wealth, causing social and economic instability.¹⁵³ Inequality is no coincidence/misfortune but rather inherent to capitalism, suggesting intervention and change. The Asian Development Bank believes that firms with an *inclusive business* approach can offer much more than widely-practised CSR activities.

Inclusive business is not just about performing CSR duties or dishing out scholarships to some poor persons. It refers actually to making *poverty reduction* the core principle of the business, not something on the sidelines. Before, it was only perceived as the government's responsibility, but now the private sector also has a vital role to play. Making poverty reduction the main objective of whole business operations, achieving development goals then becomes more sustainable and inclusive.¹⁵⁴ Investors are increasingly interested in putting their money into things that also have *societal value*.

The conscious capitalism movement, in particular, has contributed to companies being increasingly interested in going beyond CSR to create *shared value* for their business bottom line and society. Inclusive business is proving to be good business as companies increasingly recognise the business benefits of such an approach, from expanded market share to a diversified supply chain and more. Hence, the International Finance Corporation (IFC) refers to it as

integrating the *base of the economic pyramid* into value chains as suppliers, employees, distributors, retailers, and customers using commercially-viable methods, the private sector can foster opportunity, expand access, and improve lives through solutions that are sustainable, replicable, and scalable.¹⁵⁵

As inclusive businesses deepen investments in low-income communities, they improve access to affordable quality products and services, enhance productivity, and generate *new income* and livelihood opportunities across the base of the economic pyramid. In doing so, they enable inclusive growth and spur innovation, build more effective operations, strengthen value chains, uncover new sources of profitability, and enhance long-term competitiveness.¹⁵⁶ This is called “innovative inclusion”.

Shifting focus from shareholders (only) to stakeholders has opened up new avenues for companies to increase their social impact, workplace diversity and environmental responsibility. Evidence by the World Economic Forum (WEF) leads it to state unapologetically that the business case for diversity and inclusion in the workplace is now overwhelming.¹⁵⁷ Inclusive business models are helping businesses turn *underserved* populations into dynamic consumer markets and diverse new sources of supply.

Figure 2.4 illustrates how inclusive business customises its business model to take advantage of opportunities to work with people at the base of the economic pyramid (those who live on less than 8 USD a day).

Green growth

Green growth, the second indicator, refers to a circular model of the economy instead of the current high-wastage linear model (inputs, outputs and waste). This means that rather than continuing to *make, use and dispose of* unwanted side-effects in the economy (e.g., at least one-third of the world's plastic waste is neither collected nor managed, and most of it ends up in the oceans), such side-effects must become a thing of the past.¹⁵⁸ In green growth processes, a given resource is kept circulating for as long as possible, thus benefiting the environment and people (health, sustainable life and new job opportunities).

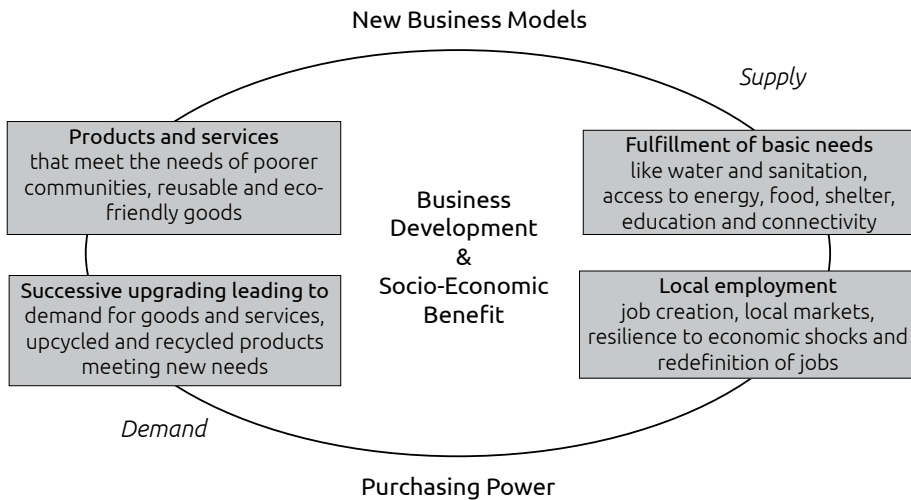


Figure 2.4: Change brought about by inclusive business models
(Source: De la Mata 2012)¹⁵⁹

This means *designing* products, processes and services to optimise the use of resources, and when such resources reach the end of their lifespan, they are either re-used, repaired or re-manufactured for other forms of output. One should also be able to re-inject their composite materials elsewhere into the economy to stimulate production and income generation. This *circularity principle* of green growth should particularly be built into energy, transport and construction as key growth drivers.¹⁶⁰ It would furthermore bring about greener agriculture, preserving biodiversity and ecosystem services as adjusted business models are being applied.

“Green growth means fostering economic growth and development while ensuring that natural assets continue to provide the resources and environmental services on which our well-being relies.”¹⁶¹ To achieve this, it must catalyse investment and innovation, which will underpin sustained growth and give rise to new economic opportunities. It is thus a certain *path* of economic growth which ensures that natural resources are used in a sustainable manner so as to enable continued human well-being as well as innovative exploration for new sources of growth.

The aim of green growth strategies is to ensure that natural assets can deliver their full economic potential on a sustainable basis. Thirty years after the first Rio Summit, the world continues to face a *twin challenge*: Expanding economic opportunities for all while the global

population is growing; and dealing effectively with environmental pressures that, if left unaddressed, could undermine our ability to seize these opportunities. Green growth lies in the *nexus* where these two challenges meet and seeks to exploit the opportunities to realise the two together.

In 2009, the *Green Growth Declaration* was signed by 34 countries, committing to strengthening their efforts to pursue green growth strategies as part of their response to the then GFC and beyond.¹⁶² While the intent was good, not much has changed in terms of the macro-impact of countries' growth paths. While the opportunity for *resetting* economies during and after the global COVID-19 pandemic presented itself, the economy's tendency to fall back into its *old ways* persists.

A complete rethink is necessary to ingrain green economic habits from both a production and a consumption point of view. Full commitment, with measurable goals and accountabilities, to realign growth policies and processes has become non-negotiable. While there is no *one-size-fits-all* approach to how countries can implement green growth, it is important that they carefully consider how to manage any potential trade-offs and best exploit the synergies between green growth and *poverty reduction*.

Greening the growth path of an economy takes collaboration from the government, the private sector and communities. Key initiatives are needed to unlock new areas of growth potential in economies. For example, in South Africa, newly established *Renewable Energy Development Zones* provide an excellent opportunity for creating a totally new energy industrial base. It entails a combined investment of between R250 billion and R450 billion in renewable energy infrastructures within these zones.¹⁶³ The green hydrogen industry that these zones could incubate could generate significant exports of a product that is in high demand internationally, namely hydrogen and its by-products produced from zero-carbon sources.

Importantly, to effectively implement green growth strategies, a *rebalancing* of the economy is actually needed: Finding new green growth areas, greening current growth processes and fostering economic progress within our ecological (and social⁴) limits. On the issue of the latter, the concept of *economics of enough* is meaningful. It is also called a "steady-state economy".

4 While strong awareness of ecological limits exists, *social limits* such as decreasing life satisfaction and happiness, increasing psychological instabilities due to stress, and a degrading moral collapse in society are less well known.

Taking full cognizance of planetary boundaries comprises making optimal use of available resources while respecting nature, other members of the community (local and global) and posterity. It embraces the idea (and virtue) of self-limitation as a producer and as a consumer, given finite resources that we all must share. *Enough* is the goal. It prioritises well-being above consumption and long-term health above short-term gains.¹⁶⁴ It focuses on innovation and development instead of growth only.

Current consumers and societies are right now in pursuit of *enough* but there also needs to be *enough* to pass on to future generations. While being part of the Green Revolution, the *economics of enough* does not mean learning to live in a no-growth environment. It means enjoying the benefits of growth today but also taking the long view and ensuring such growth is sustainable.¹⁶⁵

The goal of increasing GDP is broadened by the goal of improving quality of life. As such, the economy can develop qualitatively without the need to necessarily grow quantitatively. Four main features characterise an economy of enough:¹⁶⁶

- *Sustainable scale.* The economy, as a subsystem of the earth's ecosystems, should grow only if the benefits of growth (e.g., more income, more consumer products) exceed the costs (e.g., climate change, resource depletion). If the costs then outweigh the benefits, growth becomes uneconomic (i.e., more income makes us effectively poorer, not richer).
- *Fair distribution of income and wealth.* Anne Krueger of the IMF said it superbly: "Poverty reduction is best achieved through making the cake bigger, not by trying to cut it up in a different way."¹⁶⁷ But we also need to make the oven bigger, building capacity in new ways⁵ and redefining growth.
- *Efficient allocation of resources.* The power of markets must be deployed appropriately by balancing the roles of the state and civil society and not putting too much faith in markets to solve economic problems – even those they created in the first place (e.g., burning too much fossil fuel).
- *High quality of life for all citizens.* Balancing progress with meeting people's true needs.

5 A fairer distribution of income is also linked to alleviating social problems such as violence, crime and drug abuse. There's even a strong environmental argument (see Dietz & O'Neil, 2013) for reducing inequality: status competition leads to associated increases in material consumption across society as everyone tries to *keep up with the Joneses*.

Even during the Enlightenment, when the belief that there is *no limit to human progress* was promoted, John Stuart Mill asked realistic questions and was very scathing about the effects that uncontrolled economic growth could have upon both society and nature.¹⁶⁸ Implicit to them was that it may be in the best interests of society to be limited in certain areas. For instance, many green theorists suggest that economic growth should be limited and that it cannot exceed the level of renewable resource inputs.¹⁶⁹ The issue is not whether to grow or not, but *how* to grow. Environmentally benign and socially conducive growth initiatives are preferred.

A steady-state economy keeps the balance in check between a stable level of resource consumption and a stable population.¹⁷⁰ It's an economy where material and energy use are kept within ecological limits. Such an economy of enough is, therefore, a level of *economic saturation* mindful of the cost of excessive production and consumption to foster strong, more sustainable and inclusive growth. This is fully in sync with green growth, which seeks to spur investment and innovation in ways that give rise to new, more sustainable sources of economic activity and employment.

Growth that creates real value

While the realism and pursuit of perpetual growth can certainly be questioned, we also need to ask how the growth currently being realised can add more *real value* to the economy? By real/true value (the third indicator), I mean growth that produces a positive net effect when (a reduction of) negative externalities from GDP growth is weighed against its positive externalities. In a more practical sense, it can be interpreted as the increase in the real value added per unit of output in an economy. This also translates into increasing the *worth* of goods, services and even non-income aspects of well-being in relation to their impact on and contribution to society. Hence the need to create economic value from the basis of the interconnectedness of the human economy (as a productive network of relations) and the natural ecosystems on which it depends.

Very often, products are only considered in terms of them being there for the buying, and no account is taken of their *being*; or what they actually are. This may sound like semantics, but it is really important. Major problems arise if no account is taken of whether goods are, for instance, renewable or non-renewable, whether they are man-made or produced by nature.¹⁷¹ Differences between the various categories of goods cannot be disregarded without losing touch with reality. Fifty

dollars' worth of oil equals fifty dollars' worth of marijuana equals fifty dollars' worth of guesthouse accommodation. There is no difference between any of these goods as far as the market is concerned, except in the profit margins that can be obtained by providing them. The market puts a price tag on all goods, indiscriminately eliminating value.¹⁷²

If it is more profitable to switch resources from products that add *more true value* to society to products that add *less true value* to society, it is considered a good economic decision. GDP is the total price of all traded goods and services produced in a country during a year, but it is not the value of such goods and services. Value is qualitative, not quantitative. To create true value needs a shift in emphasis through a new ethos in the economy to produce *healthy growth* in the real sense of the word.

Importantly, all these components of *inclusive growth* have one common denominator: equitable well-being. For this to happen, disadvantaged people should see a faster rise in their well-being than other groups. This requires what Goudzwaard and De Lange call "a responsible economy of care": "It includes rather than excludes people; it internalises and takes responsibility for its effects rather than expels them to other sectors of society; and it practices restraint and replenishes rather than extracts."¹⁷³

Giving context to inclusive growth, the *priorities* of such an economy involve:

- careful management of economic processes within the confines of resource capacity;
- ensuring that at least the most critical needs (of all people) are met; and
- that the economy functions at a highly productive level.

Raquel Ramos et al. propose the following approach to inclusive growth as it pertains to being both an *outcome* and a *process*:

On the one hand, it ensures that everyone can participate in the growth process, both in terms of decision-making for organising the growth progression as well as in participating in the growth itself (and earning income). On the other hand, it goes some way towards ensuring that everyone equitably shares the benefits of growth. Inclusive growth implies participation and benefit-sharing. Participation without benefit-sharing will make growth unjust and sharing benefits without participation will make it a welfare outcome.¹⁷⁴

Thus defined, inclusive growth combines the increased participation of poor and marginalised people in growing economic processes (via employment) with increased sharing of the benefits of growth (through rising incomes as well as increased benefits from social expenditure, including human capacity building).¹⁷⁵ Both these elements need to be *present* for growth to be inclusive. It also makes way for not only more real value to be created in the economy but multiple forms of value.

Failures of GDP and measuring inclusive growth

Since the Second World War, in particular, GDP has been our main indicator of economic progress. It is a measure of economic activity – money changing hands – but it appears to be a very poor indicator of real/genuine progress. Despite being effective, the concern is that measuring the rate of growth of an economy in terms of GDP has become quite misleading.¹⁷⁶ Since growth is considered *good*, a healthy economy is equated to increases in GDP. But is it really healthy, and is it really making progress? What makes it difficult to objectively consider this question is the fact that GDP is probably the most politically influential of all indicators. Its importance in policy-making and evaluating the success of government budgets, new policies and technologies in terms of their impact on GDP is hard to overstate.¹⁷⁷ National progress has become synonymous with increasing GDP. Yet the weaknesses of GDP as an indicator of economic progress or improvement in well-being and quality of life are also well documented in the literature. Without repeating it all, it is worth pointing out a number of aspects as it relates to inclusive growth or the lack thereof:

- *GDP does not account for the quality of goods.* Consumers may buy low-quality, cheap goods, spending more on replacing them, causing GDP to grow due to inefficiency and waste.
- *GDP does not count unpaid volunteer work.* Non-market production or work that people do for free, e.g., clean-up projects in their communities, is not taken into account. In fact, it might lower GDP as it could have been done by paid employees or contractors.
- *Lack of environmental integrity.* GDP as a measure does not show how standards of living are adversely affected by pollution or that pollution is subtracted from GDP. In fact, disasters can raise GDP as spending on mitigating pollution counts as GDP.
- *GDP does not incorporate any measures of well-being.* Used as a proxy of a proxy, GDP makes the assumption that the more people consume, the more satisfied they are, and the higher their quality of life. Assuming such causality negatively affects its validity.

- *Disproportionate focus on what is produced.* What makes GDP anachronistic in modern societies is that the economy is increasingly driven by the growing service sector, from grocery shopping on Amazon to booking taxis on Uber. As the quality of experience is overtaking insistent production, the notion of GDP is quickly falling out of place.¹⁷⁸ We live in the twenty-first century where social media delivers troves of information and entertainment at virtually no price at all, the value of which cannot be interpreted by simplistic figures.
- *GDP does not describe income distribution.* High inequality causes the majority of people in a country to not benefit from the increased economic output because they cannot afford to buy most of the products and services.
- *GDP ignores externalities.* A negative side-effect of economic growth is that it goes hand-in-hand with increased exploitation of both renewable and non-renewable resources. GDP does not capture negative externalities nor the decrease in social welfare as a result of it.

The Stiglitz Commission pointed out that “GDP is not wrong as such, but wrongly used”.¹⁷⁹ For instance, it is often assumed that a higher GDP always increases social well-being, which results in a biased description that may lead to unfavourable conclusions and even harmful policy actions.

The *growth-at-all-costs* agenda of neoliberalism have severely impacted economies, few things more so than the Structural Adjustment Policies (SAPs) imposed by the IMF and the World Bank on developing countries in the 1980s and 1990s. It led to the privatisation of common goods, the weakening of welfare systems, dominance by MNCs, and the erosion of social ties.¹⁸⁰ Even called “malignant growth” due to the systemic failures and risks it is inducing, the pro-growth ideology conveniently *neglects* the human, environmental and social costs inherent in the process.¹⁸¹

A few alternative measures to GDP have surfaced in mainstream economic thinking, attempting to broaden the scope/interpretation of GDP. While it is questionable whether they succeed in giving a better indication of changes in a country’s real prosperity, they are shown by the two formulas that follow the standard *nominal GDP* formula, where consumer spending (C) plus investment (I) plus government expenditure (G) plus net exports (X-M) is equal to GDP or total income (Y).

Gross National Income (GNI) is a similar measure to GDP, except that it includes net national income (i.e., the total net income that a country earned over a specific period of time from other countries). It is referred to as the Net Factor Income from Abroad (NFIA) and is shown by receivables from (FIA_{in}) and to (FIA_{out}) abroad business. The third formula, Green Gross Domestic Product (GGDP), takes the harmful effects of production on the environment into consideration. Negative environmental impact (*g*), seen as counting against a country's GDP, is subtracted from GDP in terms of its monetary value (in any currency, but normally in dollar terms).

$$\begin{aligned}GDP &= C + I + G + (X - M) \\GNI &= GDP + (FIA_{in} - FIA_{out}) \\GGDP &= GDP - g\end{aligned}$$

A further challenge that goes beyond GDP is that the current measures of collecting data do not capture enough information to truly reflect social progress. However, gradually progress is made to achieve this aim through various *new measures* that should be seen as complementary to GDP, filling the gaps, and helping to get a more holistic picture of human economic progress.

Inclusive growth is an intuitively straightforward and yet quite elusive concept, especially when attempting to measure it. Admittedly, there are empirical challenges and difficulties in the measuring process. For instance, a key variable is *productive employment*, which is first of all difficult to define, and secondly, its classification may vary from country to country and sector to sector. Even discrepancies between using national accounts data vs household survey data may be a challenge in measuring inclusive growth. Notwithstanding these constraints, it is still worth the effort.

Attempting to measure inclusive growth, one wants to

- assess the relationship between growth and any element of economic inclusiveness;
- identify measures to determine whether a growth episode was inclusive in terms of the process of growth; and
- keep refining diagnostic tools to assess a country's progress on inclusive growth consistently and comparatively.

The ultimate aim is to determine a *net growth rate* (i.e., the net effect of growth in an economy or, more specifically, the real growth of an economy when environmental and social costs have been subtracted).

Inclusiveness index for growth

The International Policy Centre for Inclusive Growth has developed an Inclusiveness Index for measuring the *inclusivity* of economic growth. Based on the understanding of inclusive growth as an economic process characterised by an equitable distribution of its benefits and by comprehensive participation of the population in this process, it is centrally concerned with the *consequences* of economic growth rather than with levels of growth. When measuring inclusive growth, what is important is not just how much growth a country realised, but more so how much inclusiveness was generated during that period of time.

Measuring this and constructing the Inclusiveness Index, Ramos et al. divided their analysis into two fundamental dimensions of inclusive growth: benefit-sharing and participation.¹⁸² The first step, focusing on the benefit-sharing dimension, involves an analysis of income inequality and poverty indicators. The second step includes the participation dimension in the analysis by adding employment indicators. More specifically, it contains three equally-weighted components: two outcomes-based or benefit-sharing measures and one process-based measure (i.e., a measure of employment participation). The indicators are:

- For benefit-sharing, the poverty headcount ratio (H) and the Gini coefficient (G); and
- For participation, the employment-to-population ratio (EPR) (i.e., the labour absorption rate).

Index values for different countries, consisting of these three indicators, are calculated relative to the data of the other countries analysed. Intuitively, it represents a country's position regarding poverty, inequality and employment *relative* to the best situations within the group of countries.¹⁸³ Note that the Inclusiveness Index is built through a minimum-maximum normalisation of data on poverty, inequality and the inverse of the EPR.¹⁸⁴ The index is the simple average of the three min-max normalisations. A low EPR is not inclusive, but a high EPR is not necessarily good, given a large proportion of working poor in very poor countries. Constructed on a scale ranging from 0 to 1: higher index values mean less inclusive growth.⁶

6 In an IMF working paper, Anand et al. (2013a) proposes a measure that combines only *outcome indicators*, i.e., the growth in per capita GDP and the change in income inequality. It is narrower than the one by Ramos et al. As shown elsewhere, it is in line with the absolute definition of pro-poor growth rather than the relative definition.

Just as an example, Figure 2.5 shows the index values for a number of countries between 1996 and 2006. Those with a poverty rate of over 65% are instantly classified as *non-inclusive* and given the highest index value possible: i.e., the six countries on the upper-right side of the diagram (including Kenya and India).¹⁸⁵ South Africa, for instance, has a very high Inclusiveness Index value above 0.75, indicating that it has a very low *degree* of inclusiveness compared to other countries. This is mostly due to a low labour absorption rate and very high-income inequality. South Africa's index value has climbed from 0.74 in 1996 to 0.77 in 2006 amidst high GDP growth rates during this ten-year period.

For economic growth to be considered inclusive, it must either lead to an improvement in all three inclusivity indicators, or at least in one or two indicators, but with the other indicator(s) stable/non-deteriorating. The closer to 0 the index, the more inclusive the country's growth. When the index is closer to 0, the lower the *poverty rate* and Gini coefficient, the higher the EPR.

In terms of the data sources for the Inclusivity Index, poverty headcount ratios from the World Bank's Development Research Group's global update are used (with an international poverty line of 1.90 USD per day purchasing power parity (PPP));¹⁸⁶ Gini coefficient data are taken from the Standardised World Income Database (SWIID); EPR ratios are provided by the International Labour Organisation (ILO). Lastly, for clarity's sake, inclusive growth has nothing to do with what is called the "sustainable growth rate" (SGR).

While the name sounds very *inclusive*, it is only used in the corporate world, describing optimal growth from a financial perspective assuming a given strategy and financial policy, for example, the annual percentage increase in sales that is consistent with a target debt-to-equity ratio, target dividend payout ratio, target profit margin, and a target ratio of total assets to net sales. Distinct from inclusive growth, it is the growth rate in profits that a firm can reasonably achieve.

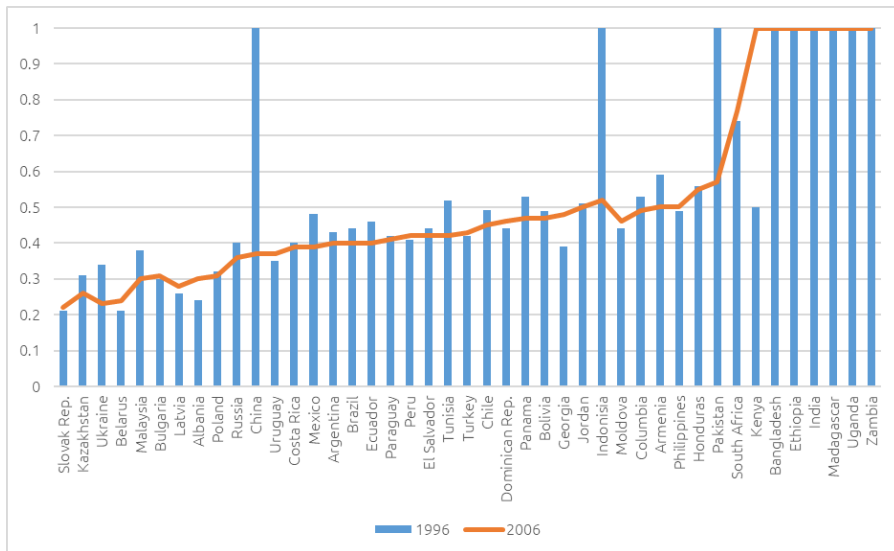


Figure 2.5: Inclusiveness Index for 1996 and 2006 (Source: Data from Ramos et al. 2013)¹⁸⁷

McKinley Inclusive Growth Index

This index is designed as a national-level tool to assess inclusive growth by measuring the increase in growth that creates and expands economic opportunities and ensuring broader access – that is, the extent to which those opportunities and the benefits generated are shared. It measures growth, income poverty, gender equity and overall equity, productive employment (e.g., GDP per person employed) and infrastructure development, social protection, and human capabilities.¹⁸⁸ The latter is seen as an *enabler* and social protection as a safety net for the most vulnerable.

One important dimension of the inclusiveness of growth, as identified in the index, is a population's access to economic infrastructure (i.e., electricity, roads, and information and communication technology). Other examples of indicators within the McKinley index are value added by each industry/sector and share of employment in different industries. Following a diagnostic approach, the index applies *weights* to a wide range of factors that may underpin growth and inclusion, which includes economic growth itself (measured by the real rate of growth of GDP per capita).¹⁸⁹

The proposed data measurements for each of these indicators are fairly coherent with the conceptualisation of inclusive growth

informing the index and are consistent with data availability (which could, at times, be a challenge in countries where data is not so readily available). The broad recommendations for this four-component, *country-level index*, which is also called the “inclusive growth composite index”, are as follows:¹⁹⁰

- 25% weight allocated to economic performance (e.g., the real rate of growth of GDP per capita and structural change);
- 15% weight allocated to employment generation (e.g., share of the employed in industry, the share of the employed in manufacturing, and share of own-account workers and formally unpaid family workers in total employment);
- 10% weight allocated to the indicators for access to economic infrastructure;
- 25% weight allocated to success in reducing extreme and moderate poverty and inequality;
- 15% weight allocated to success in enhancing human capabilities (e.g., health, education, water and sanitation);⁷ and
- 10% weight is allocated to success in providing basic social protection (especially for eliminating extreme poverty).

In terms of the scoring system, the index is constructed on a weighted average score between 0 and 10, based on country performance on each of its four components (bullets one to three above make up the first component and the other bullets the other components). Each of the four components is, in turn, a *weighted average* of its sub-components, which will also be scored from 0 to 10, and the resultant score will be given equal weight in the total/main component.

If, for example, the combined score for the third component is 6, then the weighted score of 0.9 (6 x 0.15) will be added to the overall composite index together with the weighted scores of the other three major components. In general, a score of 1–3 will be regarded as *unsatisfactory* progress on inclusive growth, a score of 4–7 as *satisfactory* progress, and a score of 8–10 as *superior* progress.

In constructing a composite index incorporating diverse, inclusive growth indicators, McKinley recognises the inevitability of *value judgements* and asserts that such an endeavour nonetheless leads to the clarification of differences and facilitates work towards

7 Note the distinction: non-income measures of well-being and valuing human capabilities, such as good health and literacy, are primarily human development outcomes, not instruments per se to accelerate economic growth.

a common ground as well as assessments of progress.¹⁹¹ The index, developed in collaboration with the Asian Development Bank (ADB), does constitute a *cogent contribution* to assessing the inclusiveness of growth.

The application of the McKinley index in case studies on India, the Philippines, Uzbekistan, Indonesia, Bangladesh and Cambodia is a welcome exception to the general lack of actual applications of operationalised definitions to assess inclusive growth. Findings from this composite index could also be used by international bodies and investors as a starting point to diagnose how to maximize its support for a country's inclusive growth objectives.

Global Database of Shared Prosperity (GDSP)

The World Bank Group has developed the GDSP, which is a collection of comparable shared prosperity data from 93 countries since 2011. Developing this *mechanism* in response to the rising demand for cross-country comparisons, they established a process for measuring shared prosperity in an internationally comparable way, addressing issues such as the choice of the time period and the selection of databases for computing the indicator in order to produce numbers that would be relatively comparable across the countries.¹⁹²

The GDSP includes the most recent figures on annualised consumption or income growth of the bottom 40% of a population and related indicators for the 93 countries, which are roughly comparable in terms of time period and interval. It measures the growth in household per capita income or consumption. The GDSP is the database that is used by the World Bank to *monitor the progress* of this indicator (shared prosperity), which is the second of its Twin Goals. For each country, a comparison is made between the median income growth of the bottom 40% with that of the per capita income growth of the overall population. Higher comparative growth by the bottom 40% indicates a higher degree of inclusion.

A consistent finding of the GDSP annual results is that *shared prosperity* is strongly correlated with overall prosperity, underlining the importance of policies that generate and sustain growth and that more assertive emphasis on inclusive growth is necessary. It also confirms that enhancing *shared prosperity* will require a concerted effort to strengthen the social contract (or social agreement), particularly in the area of promoting equality of opportunity.

Growing evidence suggests that improving access for all and reducing inequality of opportunities, particularly those related to the human capital development of children, are not only about *fairness* and building a *just society* but also about realising a society's aspirations of economic prosperity.¹⁹³ Social inclusion, and more specifically, economic inclusion, is paramount. In its March 2021 Update, a worsening global trend was observed where the low and lower-middle-income countries *keep trailing* the upper-middle- and high-income countries in boosting shared prosperity.¹⁹⁴ Between 2011 and 2018, the average global shared prosperity (growth in the incomes of the poorest 40%) was 2.8%. But the gains are uneven: Shared prosperity is lower on average in fragile and low-income economies than in middle-income economies. Plus, the global COVID-19 pandemic further reduced shared prosperity.¹⁹⁵

Figure 2.6 shows the *comparison* between different regions in terms of shared prosperity based on annualised growth in income per capita between 2011 and 2018. It is noticeable how low the income growth for both the bottom 40% and the total population is in the Middle East and North Africa (MNA) and Sub-Saharan Africa (SSA). This, and the fact that income growth in the bottom 40% in all the regions is not significantly higher than the average per capita income growth (total population), shows how *low* inclusive growth is.

The World Bank's approach to inclusive growth assumes a long-term perspective, with the emphasis being placed on *productive employment* as opposed to short-term income redistribution. It is congruent with the absolute definition of pro-poor growth. The approach follows the *ex-ante* growth diagnostic to analyse the sources of sustained high growth and its constraints.¹⁹⁶ The aim of such analysis is to suggest ways of raising the *pace* of growth by means of more optimal use of labour, especially for those trapped in low-productivity sectors and those completely excluded from the growth-generating process. In this context, inclusive growth is characterised by labour-absorbing growth and increasing *productivity* of those already employed.

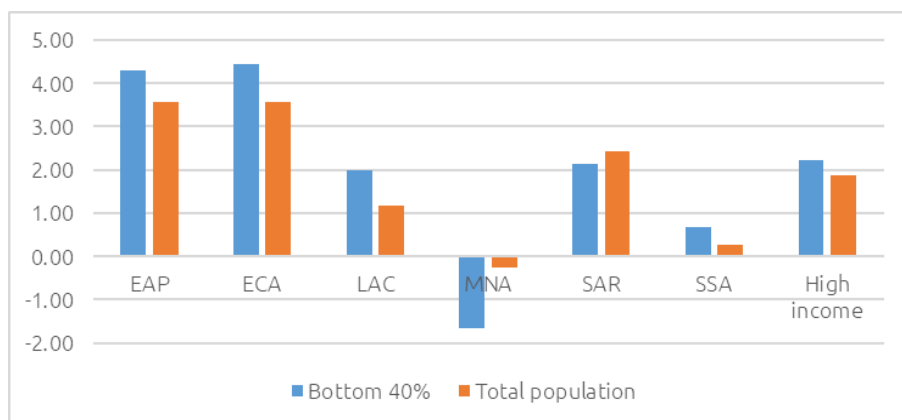


Figure 2.6: Regional comparison of shared prosperity: Annualised p/c growth (2011–2018) (Source: Data from the GDSP)¹⁹⁷

Note: Regions comprise East Asia Pacific (EAP), European and Central Asia (ECA), Latin America and the Caribbean (LAC) and South Asia (SAR).

Dynamic integrated measure of inclusive growth

Delving deeper into the patterns and studying the sources of inclusive growth, Anand, Mishra and Peiries,¹⁹⁸ in collaboration with the IMF, developed a measure of inclusive growth that is in line with the absolute definition of pro-poor growth. Under this definition, growth is considered to be pro-poor as long as poor people benefit in *absolute terms*, as reflected in some agreed measures of poverty.¹⁹⁹ The measure here allows an analysis of income distribution that can differentiate between countries where per capita income growth was the same for the top and the bottom of the pyramid (BoP) by accounting for the pace of growth. Integrating *equity and growth* in a unified measure, based on a utilitarian social welfare function drawn from consumer choice literature, where inclusive growth depends on two factors: income growth and income distribution.

The underlying social welfare function must satisfy two properties to capture these features: it is increasing in its argument (to capture the growth dimension), and it satisfies the transferred property, i.e., any transfer of income from a poor person to a richer person reduces the value of the function (to capture the distributional dimension).²⁰⁰

The macro measure of inclusiveness is based on the micro concept of a generalised *concentration curve*. In this model, the population is

arranged in the ascending order of their income, called the “social mobility curve”. A higher curve implies greater social mobility; growth is inclusive if the social mobility curve moves upward at all points.

However, there may be degrees of *inclusive growth* depending on how much the curve moves up (growth) and how the distribution of income changes (equity); that is, how the curvature changes.²⁰¹ This aspect of the social mobility curve is the basis of the proposed integrated measure of inclusive growth. Thus, if two generalised concentration curves do not intersect, they could be ranked on social mobility, that is, inclusive growth.

To demonstrate the point made above, Figure 2.7 depicts two social mobility curves with the same average income ($\bar{y}$) but different degrees of inclusiveness (i.e., different income distribution). The social mobility curve A_1B is more inclusive than the social mobility curve AB , as the average income of the bottom segment of the society is higher.²⁰²

To capture the magnitude of the change in income distribution, the model uses a simple form of the social mobility function by calculating an index from the area under the social mobility curve. The greater the area under the social mobility curve ($\bar{y}^*$), the higher inclusive growth is. If the income of everyone in the population is the same (i.e., if income distribution is completely equitable), then $\bar{y}^*$ will be equal to $\bar{y}$. If $\bar{y}^*$ is lower than $\bar{y}$, it implies that the distribution of income is *inequitable*. Hence, the deviation of $\bar{y}^*$ from $\bar{y}$ is an indication of equity in income distribution.

This dynamic measure of inclusive growth enables one to focus on inequality as well as distinguish between countries where per capita income growth was the same for the top and the bottom of the income pyramid by accounting for the *pace of growth*.²⁰³ Macroeconomic stability, human capital development, fixed investment and structural changes to the economy remain vital basics for achieving inclusive growth.²⁰⁴

The role of technological advancement (its reach and access) and globalisation should be positive if foreign direct investment (FDI) and trade openness (to move up the value chain in exports) fosters greater *inclusiveness*, while financial deepening and financial inclusion also contribute to it. Lastly, in this model’s context, the links between unemployment and labour market institutions are critical for fostering inclusive growth by means of job creation.

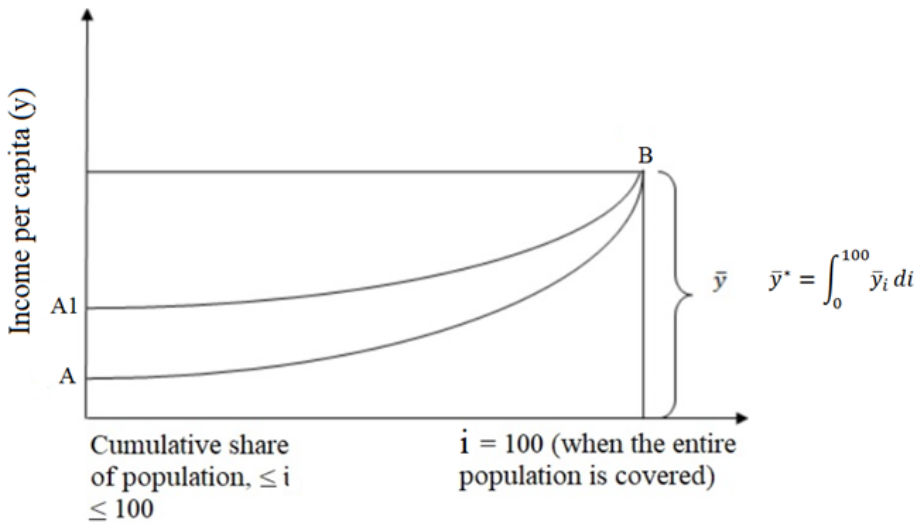


Figure 2.7: Shifts in social mobility curve showing inclusive growth
(Source: Anand, Mishra & Peiries 2013a)²⁰⁵

Helping to address the limitations of GDP, especially that it interprets every expense as a positive and does not distinguish welfare-enhancing activity from welfare-reducing activity, is what these inclusive growth measures are attempting. Based on the notion of inclusive growth as a process that produces changes in *levels of inclusiveness*, these and other measures/techniques⁸ analyse the changes in various indicators between different points in time or over a specific period.

The most important aspect is if the economic growth seen over a given period of time was inclusive and if it led to an *increase* in the level of inclusiveness, which is calculated based on the indicators of the methods used. The shared aim is to move towards inclusive income expansion through raising productivity and enhancing equity.

Conclusion

Moving towards inclusive growth is not merely a nice/new idea; it directly relates to the existential threat humanity is facing. In a world of finite resources and escalating consumption and production, a continuation of the status quo only means one thing: *self-destruction*.

⁸ These include: the OECD approach, the African Development Bank (AfDB) approach, the UNDP approach; and contributions by Ianchovichina and Lundstrom, Kj  ller-Hansen and Sperling, Son and Kakwani, Klasen and Kanbur.

Supplementary to this, inequality has become an equally dangerous existential threat as it remains the developmental challenge of our time.²⁰⁶ Unfettered growth that perpetuates inequality is thus a major concern.

The big mistake would be to think that technological innovation will save us; it is a mere add-on plagued by its own trade-offs. Inclusive growth, in effect, forms part of an *intuitive* global economic intervention strategy – something humanity knows it desperately needs to adopt once it fully understands it. Our planetary existence might depend on the successful *implementation* of inclusive growth in economies worldwide.

The hype around *degrowth*²⁰⁷ is something that is not promoted within the inclusive growth framework and might even be a danger to building an inclusive economy. Saying that we need negative economic growth rates to protect the planet is simply too revolutionary (and senseless). Inclusive growth means an evolutionary change to the growth process, but with *specific targets* and intentional processes to ensure visible transformation of the economy.

While shying away from the growth patterns/trajectories of advanced economies is recommended, i.e., following a different *growth path* (namely inclusive growth), inclusive patterns of economic development should be pursued without discarding conventional patterns. One such example is the fact that economic growth in developing countries is largely dependent on growth in developed economies. If the latter has negative growth, fewer products and services from the developing world will be bought and imported; markets will shrink; profits will decrease; poverty and unemployment will rise.

The challenge is to change the *kind of growth* the world has pursued until now while still deriving the growth benefits (spillover effects to the developing countries) from advanced economies, albeit quite often in different forms than before. Improving economic sustainability is the shared goal.

Inclusive growth represents a significant shift in the right direction. A key question is: *What makes growth inclusive?* If one analysis the sources of inclusive growth, it becomes quite clear – as we've seen – that economic growth can be considered inclusive if, along with the real GDP growth, the following improvements are observed:²⁰⁸

- An increase in productive employment (i.e., increase in both labour absorption and labour productivity).

- Contributors to economic growth comprise various population groups and several sectors of the economy (i.e., economic diversification is in progress).
- Non-discriminatory access to markets and resources is being facilitated for persons (especially the marginalised/excluded) and legal entities.
- A fairer regulatory environment that benefits all plus environmental-friendly regulation.
- Main economic growth sources are provided via the market economy system, while the role of government is reoriented to be a key factor in a more efficient supportive context.
- Real economic growth takes place rather than just income redistribution among population groups to alleviate poverty in the short term.
- Growth rates are sustainable in the long run, while poverty and inequality steadily decrease.

These markers mean, respectively, that inclusive growth can be (partially) characterised as broad-based growth that has non-discriminatory participation and that inclusive growth goes further than both the absolute and relative definition of pro-poor growth (i.e., growth that mainly benefits disadvantaged groups) to also benefit the rich, but in different ways than only income. While the concept of inclusive growth may be able to defuse the age-old tension between growth and redistribution, its actual contribution is in the context of *predistribution*. This is when the emphasis is placed, not just on classic tax-and-transfer programmes, but on dealing with the underlying market forces and systemic problems that *cause* (and perpetuate) inequality in the first place.

This approach prioritises policies that more directly intervene in the labour market to reduce income inequality.²⁰⁹ Predistributionist policy-makers would favour raising wages, perhaps by increasing the minimum wage, over increasing government transfers to those workers in the form of, for instance, earned income tax credits.

Though, the *debate* continues about whether it is more efficient to reduce inequality by raising market incomes or by raising incomes after taxes and transfers. Growing evidence suggests that the labour market is not perfectly competitive. Hence pre-tax-and-transfer labour market policies would not be as costly as previously thought.²¹⁰ If moderate increases in the minimum wage, for instance, do not lead to increases in unemployment, then raising the minimum wage does not reduce efficiency as much as many expected. In fact, the losses in

economic efficiency from raising revenues from high-earning workers and then transferring them to low- and moderate-wage earners may be *costlier*. Weighing up the relative merits of both redistribution and predistribution, the new emerging consensus about the labour market – focusing on labour market reforms that help workers earn higher incomes directly – might turn out to be the better option.

The essence of inclusive growth is the combination of raising the *pace* of growth and *enlarging* the size of the economy by providing a level playing field for investment and increasing productive employment opportunities. This brings the concept of *inclusive development* into the picture, which “hinges on the inclusion of excluded people and the utilisation of their capabilities”.²¹¹ It involves a shift in focus beyond poverty and the poor.

Ultimately, inclusive development focuses on the distribution of social and material benefits across social groups and categories but also the structural factors that cause and sustain the exclusion and marginalisation of vulnerable groups in society.²¹² It gives *voice and power* to the concerns and aspirations of otherwise excluded groups. It redistributes the incomes generated in both the formal and informal sectors in favour of these groups and allows them to shape the future of society in interaction with other stakeholder groups. Joyeeta Gupta et al., illustrating the *symbiosis* between inclusive growth and inclusive development, define the latter as: “A development that includes marginalised people, sectors and countries in social, political and economic processes for increased human well-being, social and environmental sustainability, and empowerment”.²¹³

Together, complementing each other, this symbiosis transforms the economy and produces an *inclusive growth path* (i.e., process and direction) that can be followed with confidence from an economic sustainability perspective. It also is fully aligned with the principles of Ubuntu, enabling more effective interaction and collaboration between different stakeholders in attaining shared economic goals.

Growth will not be inclusive unless we *make it inclusive*. Conventional growth on its own is incapable of sustainably reducing poverty and inequality and increasing employment.²¹⁴ This is even more so in the case of *perverse growth*, where growth leads to the exclusion of some people, the concentration of wealth, increased debt-dependence, and the maldistribution of resources. It also leads to a consumption-based development model, dependent on increased consumption and standardisation, which is in stark contrast to an

inclusive development model that includes and empowers people to make objective decisions linked to their values and motives.²¹⁵

The latter, in turn, stimulates inclusive growth. An important policy priority, therefore, is *realigning* growth patterns to become employment-intensive. Developing and investing in the informal economy becomes critical in stimulating inclusive growth. If by definition, inclusive growth means and requires that poor and marginalised people participate in growing economic activity and simultaneously benefit from it, inclusivity will have to include and integrate the informal and *survivalist segments* of the economy (e.g., Kasinomics).²¹⁶

Income-generating activities in the informal sector would become an integral part of growing economic activity and the collective good. Poor and marginalised people would then contribute to growth rather than just receive benefits from formal sector growth (e.g., social spending or grants). Furthermore, whereas conventional growth is dependent on credit, inclusive growth gradually reduces this dependency by building a broader productive base in the economy. This allows productivity to be the *pulling force* for growth and not credit.

Assessing inclusive growth is crucial for both evaluating the effectiveness of policies already in place and improving existing ones or even devising new policies. Since GDP is already in use, the idea of measuring inclusive growth is to *shift the focus* away from the size of the increase in economic output to *how* the output is generated.

In this regard, various indexes for inclusive growth, as well as different integrated measures and techniques, are available to be utilised. To determine the degree/extent of inclusive growth, one eventually wants to determine a sort of *net growth rate*. To effectively do this, other measures of genuine economic progress will need to be taken into account to see, on balance, what the effect is on growth in terms of its process and its outcome.

The former head of the IMF, Christine Lagarde, and Nobel prize-winning economist Stiglitz admitted at the WEF in Davos that “GDP is a poor way of assessing the health of our economies and we urgently need to find a new measure”.²¹⁷ Apart from the need for new measures, it is mainly the *growth first, the rest later*-mentality in the promotion of GDP that has been its biggest downfall.

Ironically, it actually is the lack of inclusive growth that stifles the momentum of the growth process and leads to misinterpretations of its results. The blind pursuit of instant gratification, easily available debt, excessive profit-seeking, and GDP growth being the main objective

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of the government to show success and prosperity (supposedly) are a confluence of unhelpful forces that keep feeding the growth obsession. To this, inclusive growth takes a sobering stand.

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Chapter 3

Genuine economic progress

“Measuring what matters.”

Introduction

While the quest for a better quality of life (or living conditions) is the primary driver of the economy, in general, it still is fairly unclear what that really means. For some, it means more money (income); for others, it means better living conditions (sufficient resources) and stability, while some prefer innovation. Underneath it all, the actual question is: *What is genuine economic progress?* The answer to this question, which is the primary focus of this chapter, will shed objective light on the real issues that matter when people strive to improve their quality of life.

Well-being is a more holistic goal than simply growth or a rise in income and is more *in tune* with the multiple dimensions of human living and satisfaction. This, which Joseph Stiglitz calls “scarcity in an age of plenty”, has caused a *secular stagnation* as consumption and growth are reaching levels of saturation in economies.²¹⁸

Slowing/disappearing growth (or even *growth traps*) coinciding with rising financial instability has even been admitted by the International Monetary Fund (IMF) and top World Bank economists.²¹⁹ This has serious implications for the global economy, escalating the need to rethink economic prosperity and chart a new *wealth trajectory* that does not follow the same degenerative/depleting growth path that the industrialised nations notoriously demonstrated over decades. Making human well-being the new headline objective sets us on the right path towards real economic progress.

Economic growth has for a long time been assumed to be the answer to improving people’s quality of life. However, as indicated in the previous chapter, we need to look beyond growth or simply improving gross domestic product (GDP) per capita to identify determinants that affect the quality of life or human well-being at a broader scale and scope. A comprehensive, *realistic* approach is paramount because, given escalating inequality and poverty, the majority of lives around the globe are at stake.²²⁰

This is even more so now that the lockdown ripple effects of the global health pandemic are causing havoc. With exclusion at the order of the day in the economy, ensuring genuine economic progress has become a *prerequisite* for economic inclusion.

Much of the world's inequality is the result of market distortions and exploitations, with incentives directed not at creating new wealth but taking it from others.²²¹ Genuine progress requires the creation of new wealth from new/different sources and in different ways than what we have become used to. An innovative pursuit of true well-being has become a necessity. Whereas GDP is a quantitative indicator trying to achieve a qualitative goal, we need more qualitative indicators to improve quality of life in the true sense of the word.

The meaning of genuine economic progress

Most economists assess progress in people's welfare by comparing GDP levels over time. Yet this method is prone to over-valuing production and consumption of goods (i.e., productivism and consumerism), thus often distorting real progress. Even Simon Kuznets, the inventor of the concept of GDP, noted in his first report to the US Congress in 1934:

The welfare of a nation can scarcely be inferred from a measure of national income. If the GDP is up, why is America down? Distinctions must be kept in mind between quantity and quality of growth, between costs and returns, and between the short and long run. Goals for more growth should specify more growth of what and for what.²²²

A more adequate measure of progress must take ecological yield¹ (and social yield) into account and the ability of nature to provide services, which are part of a more *inclusive ideal* of progress, transcending the traditional focus on raw industrial production.

A shift towards a more holistic assessment of progress is now taking place, yet still without proper recognition in policy-making and observing it in systemic and structural change in the economy. Even so, measuring progress beyond GDP is fully underway, opening up a whole new space of economic discovery. Here, sustainability becomes

1 *Ecological yield* is the harvestable population growth of an ecosystem. Forestry is a good example of how it is measured: sustainable forestry is that which does not harvest more wood in a year than has grown in that year. In the same way, *social yield* may be described as *harvestable* human capital development (value added) in a community.

the driver of innovation, bringing a *paradigm shift* in economics from self-interest as the primary motivation to a shared interest.

Collective well-being is optimised through preserving human capital, ecological capital and shared social norms in a balanced and innovative way to create sustainable and equitable opportunities, access and benefit-sharing and ensure genuine progress.²²³ It brings a new emphasis on *values* in the economy while also shaping a value-driven economy (i.e., products and services that have real value). This shift stimulates investment in human well-being, thus optimising community social capital.

As follows, genuine economic progress involves a *synthesis* between collective well-being (not just welfare) on the one hand and classical capitalism (profit-driven rational choice theory and Pareto optimality (growth)) on the other hand, which is aimed at *rebalancing* the equilibrium by creating value for all stakeholders in the economy, including the non-income aspects of well-being.²²⁴

Well-being is the outcome of a convergence of factors, ranging from good human relations to greater equality as well as a healthy social and natural environment. The focus on genuine progress is changing the relationships between the paid and unpaid economies and between the formal and informal sectors. It even goes as far as reintroducing ethics and morality, and *culture and context*, into the economy, in recognition of changing social values linked to economic performance.²²⁵ Social justice, creating real opportunities for the poor and ensuring environmental sustainability, is of growing public interest as the morals and ethics of growth are under *scrutiny*, along with the quest for a more pragmatic, reality-based approach to economics.

The objective of ensuring genuine economic progress is central to an inclusive economy, involving a balanced *inclusion* of essentially three aspects in the economic framework: people, nature and ethics. Genuine progress, addressing the *exclusion* flaws of neoliberal capitalism and the growth-driven economy, reinforces a new emphasis in economics by giving the highest priority to:²²⁶

- Reducing poverty and unemployment (i.e., people's exclusion from the economy).
- The environmental responsibility of economic processes (i.e., reducing exclusion through the wasting of natural resources).
- Moral obligation and value-driven profit-making (i.e., preventing the exclusion of ethics in economics).

This is the opposite of what Herman Daly, a former senior economist at the World Bank, once said: “The current national accounting system treats the earth as a business in liquidation.”²²⁷ He further observed that we are now in a period of “uneconomic growth,”² where GDP is growing, but economic welfare is not.

Genuine economic progress comprises an economy that is growing sustainably; creates new participative opportunities; and is ecologically replenishing. It also means reducing and *internalising* negative externalities in the economy and optimising positive externalities. In this sense, genuine economic progress is the net effect of subtracting negative externalities (e.g., social and environmental costs) from growth in GDP and adding positive externalities not measured by GDP.²²⁸

An improvement in genuine economic progress is thus indicated by the real increase in economic welfare and/or improvement in the well-being of a nation/community as a whole. In a sense, one can say that its aim is to *redefine progress*, away from a one-dimensional measure like GDP and towards a multi-dimensional appreciation of the different facets of human well-being; the true quality of life.

Theoretical foundation

Whereas the theoretical basis of GDP is conventional macroeconomics, genuine progress indicators/indices are soundly based on a concept of income and capital first advanced by Irving Fisher (1906), which proponents consider to be far superior to standard definitions of income.²²⁹ It is a variation on the Hicksian definition of income invariably used to calculate adjusted measures of GDP.

Hicks (1946) emphasised that the practical *purpose* of calculating income is to indicate the maximum amount people can produce and consume without undermining their capacity to produce and consume the same amount in the future.²³⁰ As such, sustainable income refers to the basic Hicksian³ notion of income. Green accounts, to arrive at an adequate measure of Hicksian income, deduct from GDP depreciation both human-built and natural capital stocks and certain expenditures

2 *Uneconomic growth* is economic growth that reflects/creates a decline in the quality of life. A decline in well-being arises due to the social and environmental sacrifices made necessary by the growing encroachment on the ecosystem.

3 Hicks’s classic summary is: “We ought to define a man’s income as the maximum value which he can consume during a week, and still expect to be as well off at the end of the week as he was at the beginning”.

(e.g., on security systems) made to defend/protect ourselves from some of the undesirable side effects of economic growth.

In terms of national income, Fisher argued that the national dividend consists not of the goods produced in a particular year but of the services enjoyed by the ultimate consumers of all human-made goods. Fisher called the services enjoyed by ultimate consumers “psychic income” (today called “utility satisfaction”). In this view, any durable producer or consumer goods manufactured during the current year is not part of this year’s income. It simply constitutes an addition⁴ to the stock of human-made capital. Only the services rendered this year by non-durable consumer goods and durable producer and consumer goods manufactured in previous years are included in this year’s income.

The Fisherian view of income could be seen as *superior* to the Hicksian view in that the latter wrongly associates economic welfare with the rate of production and consumption.²³¹ The Fisherian perspective is different in that it takes the view that economic welfare depends on the psychic enjoyment of life.²³² While it is true that the psychic enjoyment of life (or utility satisfaction in life) cannot be experienced without the existence of physical goods, it is certainly not determined by the rate at which goods are produced and consumed. It is mainly *determined* by the quantity of human-made capital (at least up to a certain amount), the quality of the stock, and ownership distribution, all of which can be beneficially adjusted without the need for an increased rate of production and consumption.²³³

Another implication of Fisher’s concept of income and capital is that by keeping capital and income separate, one is *forced* to recognise that since the stock of human-made capital depreciates and wears out through use, its continual maintenance is a cost, not a benefit. A cost because the maintenance of human-made capital necessitates the production of new goods, and production can only occur if there is an ongoing throughput of matter-energy (the input of low entropy resources and the output of high entropy wastes).²³⁴

Obtaining the throughput requires the exploitation of natural capital, which, in turn, results in the inevitable loss of some of the source, sink and life-support services provided by natural capital.

4 In the Irving Fisher sense, capital is regarded as any physical object that is subject to human ownership and capable of directly/indirectly satisfying human needs and wants. Hence, human-made capital refers to all producer and consumer goods. Labour, consisting of skill and knowledge, can also be part of the stock of human-made capital.

Genuine progress indicators and indices are aimed at overcoming the problem of *counting* lost natural capital services as income by subtracting from GDP the cost of natural capital depletion.²³⁵

Moreover, it is because Fisher's concept of income and capital treats the production of replacement goods as the cost of keeping human-made capital intact that these indicators effectively stand as *indices* of sustainable cost (unlike an index of unsustainable cost, such as GDP) as well as indices of sustainable economic welfare.

Further to this, *net social profit* analysis is simply an expanded form of cost-benefit analysis that uses welfare equivalent or sustainable income rather than GDP. By using green accounts in net social profit analysis, a measure of the welfare or sustainability implications of policy changes is provided. In particular, *net social profit* is the difference between green GDP with and without a particular policy change.²³⁶

Net social profits can be *positive*, indicating that the proposed policy is welfare-enhancing or *negative*, meaning that its social costs exceed benefits. In this way, net social profit is a measure of policy effectiveness. Since not all components of the Fisher and Hicks income concepts are applicable in any particular policy setting, green accounts used to calculate net social profit are not necessarily the same as either welfare equivalent or sustainable income.

The concept of genuine economic progress was actually developed out of the theories of 'green economics', which sees the economic market as just one component within an ecosystem.²³⁷ What differentiates it from prior economic regimes is the direct valuation of natural capital and ecological services as having economic value, and a full cost accounting regime in which costs externalised onto society via ecosystems are reliably *traced back to* and accounted for as liabilities of the entity that does harm or neglects an asset.²³⁸ To, therefore, be green, an economy must be not only efficient but also fair.⁵

In many respects, green economics is viewed as a branch or sub-field of more established schools of thought. For example, it is regarded as classical economics where the traditional land is generalised to natural capital and has some attributes in common with labour and physical capital (since natural capital assets like rivers directly substitute for man-made ones, such as canals).

5 Fairness implies recognising global and country level equity dimensions, particularly in assuring a *just transition* to an economy that is low-carbon, resource efficient and socially inclusive (UNEP, 2011).

Or it is viewed as Marxist economics with nature represented as a form of *Lumpenproletariat*, an exploited base of non-human workers providing surplus value to the human economy. It is otherwise also seen as a branch of neoclassical economics where the *price of life* for developing vs developed nations is held steady at a ratio reflecting a balance of power and that of non-human life is very low.

Notably, this directly links up with the *threshold hypothesis* developed by Manfred Max-Neef: “When macroeconomic systems expand beyond a certain size, the additional benefits of growth are exceeded by the attendant costs,” meaning the quality of life decreases as the economy grows.²³⁹ From data that compared GDP per capita with the Genuine Progress Indicator (GPI) per capita from 17 countries, this hypothesis took its prominence. It actually demonstrates that, while GDP increases overall well-being to a point: beyond 7 000 USD GDP per capita per annum, the increase in GPI is reduced/remains stagnant.²⁴⁰

Similar trends can be seen when comparing GDP to *life satisfaction* as well in a Gallup Poll published by Deaton in 2008.²⁴¹ Since then, there has been a wider acceptance of the threshold hypothesis. As Philip Lawn states: “In virtually every instance where an index of this type [measuring genuine progress] has been calculated for a particular country, the movement of the index appears to reinforce the existence of the threshold hypothesis.”²⁴²

This has contributed significantly to countries starting to shift emphasis from growth-only objectives to sustainable qualitative improvement. Clearly, all this fits neatly into the framework of inclusive economic theory explained in Chapter 1.

Measuring genuine economic progress

Countries need effective indicators that measure progress towards achieving goals that truly matter to the people: economic, social and environmental. Standard economic indicators like gross national product (GNP), GDP and GDP per capita are useful for measuring just one limited aspect of the economy, i.e., marketed economic activity.²⁴³ Mistakenly, however, GDP has been used as a broader measure of social and economic welfare, something for which it was never designed. GDP measures *output*, not progress.⁶

As the most commonly used indicator of a country’s overall performance, the shortcomings of GDP pose a number of problems for

6 GDP omits, by design, much of what people value and many of the activities that fulfil our basic needs.

properly responding to the main contemporary challenges to welfare and human well-being. A *holistic* perspective on growth is developing, underlining the needed inclusivity of growth and less growth-centred economic progress.

Growth will always remain important, but a variety of new indicators have been put forward by advocates of inclusive development, which is argued to be *more appropriate* (than merely GDP) for evaluating the performance of economies, the global economy, businesses, institutions and society/communities.²⁴⁴ Having become a motivation for change, the decline of GDP as a measure of social welfare and the *rise of alternative indicators* focusing on human and ecosystem well-being are making visible what was hitherto invisible.

This has prompted efforts to develop a number of indexes to measure and compare the benefits and costs of growth as well as alternative aggregate indicators of well-being. Although a comprehensive indicator would consolidate economic, social and environmental elements into a common framework to show *net progress*, researchers have noted the dangers of relying on a single indicator and are proposing a *dashboard* approach with multiple indicators.²⁴⁵ The indicators can be divided into three broad categories:²⁴⁶

- Measures that modify economic accounts to address (or include) equity and non-market environmental and social costs and benefits.
- Measures that use weighted indices of *subjective* indicators based on survey results.
- Measures that use weighted indices of a number of *objective* indicators.

The approach followed here to measure genuine economic progress, making mixed-use of the three strategies above, is the dashboard approach, in which a selection of arguably the most prominent methods is outlined. Importantly, all of them are indications of *degrees* of economic inclusion.

Genuine Progress Indicator (GPI)

First applied in 1994, the GPI metric provides monetised estimates of societal well-being based on economic, social and environmental criteria. The GPI is a comprehensive measure of national health expressed in economic terms. It includes the economic contributions of household and volunteer work while subtracting factors like crime, pollution and family breakdown.²⁴⁷ These adjustments allow the GPI

to provide arguably a *more accurate* snapshot of a nation's progress than GDP.

Although it was initially completed on the national scale, there has been recent interest in applying GPI locally and regionally. Similarly to national policy decisions: local fiscal, environmental and land use choices can have a substantial influence on well-being.²⁴⁸ As a monetary indicator, the GPI is uniquely suited to evaluate the impact of policy proposals, and its *dashboard-like* features are able to track changes in contributing variables. GPI includes 24 components that adjust GDP for inequality, include household and volunteer work, and subtract a number of social and environmental costs best seen as *negatives*. It has been estimated for over 20 countries and many states and territories.

The GPI and its precursor, the Index of Sustainable Economic Welfare (ISEW),⁷ were designed to reveal the trade-offs of conventional economic growth and take fuller account of the well-being of a nation; only a component of which pertains to the size of a country's economy. This is done by incorporating environmental and social factors which are not measured by GDP. For instance, some models of GPI decrease in value when the poverty rate increases.²⁴⁹

In this way, it separates the concept of societal progress from economic growth. The objective of the ISEW and later the GPI was to incorporate environmental, social and economic costs associated with unfettered GDP growth and to generate an *indicator* that reflected the true development of society. This indicator is neither perfect nor complete for assessing development or human well-being, but it is considered by many economists as superior to GDP.²⁵⁰

Originally designed as a national composite indicator and policy lens, GPI advocates claim that it can measure economic progress more reliably by differentiating between the overall shift in the *value basis* of a product and adding its ecological impacts into the equation.²⁵¹ Comparatively speaking, the relationship between GDP and GPI is *analogous* to the relationship between a company's gross profit and its net profit; the net profit is the gross profit minus the costs incurred, while the GPI is the GDP (value of all goods and services produced) minus the social and environmental costs.

Accordingly, the GPI will be *zero* if the financial costs of pollution and poverty equal the financial gains in the production of goods and

7 The ISEW was created in the 1990s by Daly and Cobb (1990), and later refined as the GPI by Cobb's *Redefining Progress*.

services, all other factors being constant (*ceteris paribus*). Essentially, three kinds of measurements undertaken by GPI, which correspond to all green GDP accounts, can be identified:²⁵²

- welfare equivalent income;
- sustainable income (this refers to the welfare associated with consumption activities or *psychic income*/utility satisfaction), and
- net social profit.

GPI systems generally try to take account of the social and environmental costs of GDP by incorporating *sustainability*, that is, whether a country's economic activity over a year has left it with a better or worse future possibility of repeating at least the same level of economic activity in the long run.²⁵³

For example, an agricultural activity that uses replenishing water resources, such as river runoff, would score a *higher* GPI than the same level of agricultural activity that drastically lowers the water table by pumping irrigation water from wells. In terms of calculating GPI, one of the metrics or modes of calculations most commonly used is the formula by Kubiszewski, Costanza, Gorko et al.:²⁵⁴

$$GPI = C_{adj} + G_{nd} - W - D - E - N$$

Each component consists of sub-variables, of which the six main variables are *C_{adj}*, personal consumption expenditure adjusted for income inequality; *G_{nd}*, all non-defensive government expenditures (e.g., building schools and hospitals); *W*, non-monetised contributions to welfare (e.g., volunteer work); *D*, private defensive expenditure (e.g., insurance); *E*, the costs of environmental degradation (e.g., deforestation); and *N*, the depreciation of the natural capital base (e.g., non-renewable consumption).

As pointed out by Günseli Berik, the GPI “was the first aggregate welfare indicator to incorporate an inequality adjustment that deducts the cost of inequality from personal consumption expenditures”.²⁵⁵ Its inclusive nature is reflected by being both a measure of economic performance and social progress. While GDP is a measure of current income, GPI measures the sustainability of that income. To ensure genuine economic progress, the GPI per capita must aim to rise faster than (or at least in tandem with) GDP per capita.

Figure 3.1 shows how, from 1945 until 2020, GPI per capita has gradually decreased as GDP per capita increased in terms of global averages. Balancing GDP spending against external costs, GPI shows

in this case, in terms of the *net effect*, how genuine progress and average well-being have gradually diminished relative to global GDP per capita, which is supposed to be an indication of better average living standards. The decreasing trajectory has been particularly evident since 1975, during the times of the oil shocks. If the economic effects of the COVID-19 pandemic, plus the rate of resource depletion, are taken into consideration, a *new acceleration* of the gap is expected, rushing towards a new energy crisis. It simply illustrates that unless the world economy redirects towards greater sustainability, our future is at (high) risk.

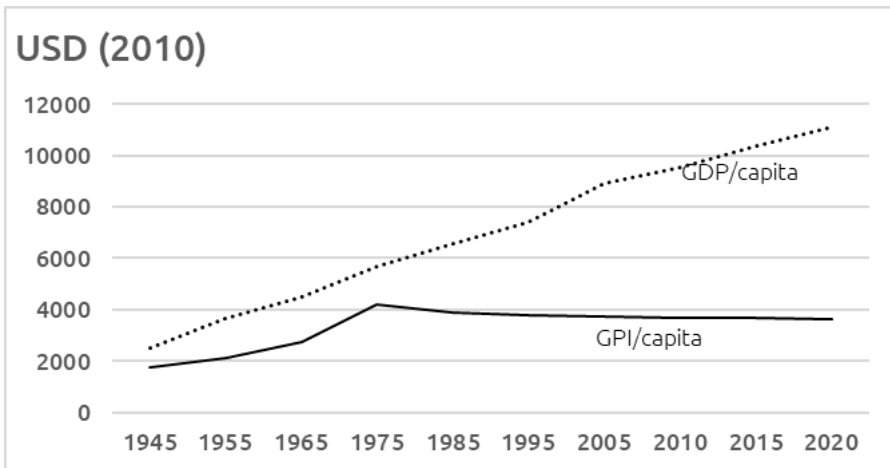


Figure 3.1: World average GDP per capita vs GPI per capita (1945–2020) (Sources: Kubiszewski et al. 2013; World Bank & OECD 2021 and GNHUSA 2021)²⁵⁶

In the context of genuine economic progress, Robert Costanza et al. define sustainable development as “development that improves the quality of human life while living within the carrying capacity of supporting ecosystems”.²⁵⁷ Factoring in environmental footprints and social costs resulting from economic activity, a range of indicators are combined (as plusses and minuses) in accounting for genuine economic progress in calculating the GPI.

In an attempt to show *net progress*, the components measured, as seen in Figure 3.2, show how those aspects that are actually overall negative activities in society, such as the costs of environmental degradation, biodiversity loss, ecosystem services loss, cost of family breakdown, cost of unemployment, and cost of crime and pollution, are *subtracted* from income. Positive components left out of GDP, including

the benefits of volunteering and household work, among others, are *added*. All these indicators fall under three broad categories: economic indicators, environmental indicators and social indicators. Together, their net effect measures the rate of genuine economic progress, and when compared to GDP, they indicate the real progress of an economy in comparative terms.

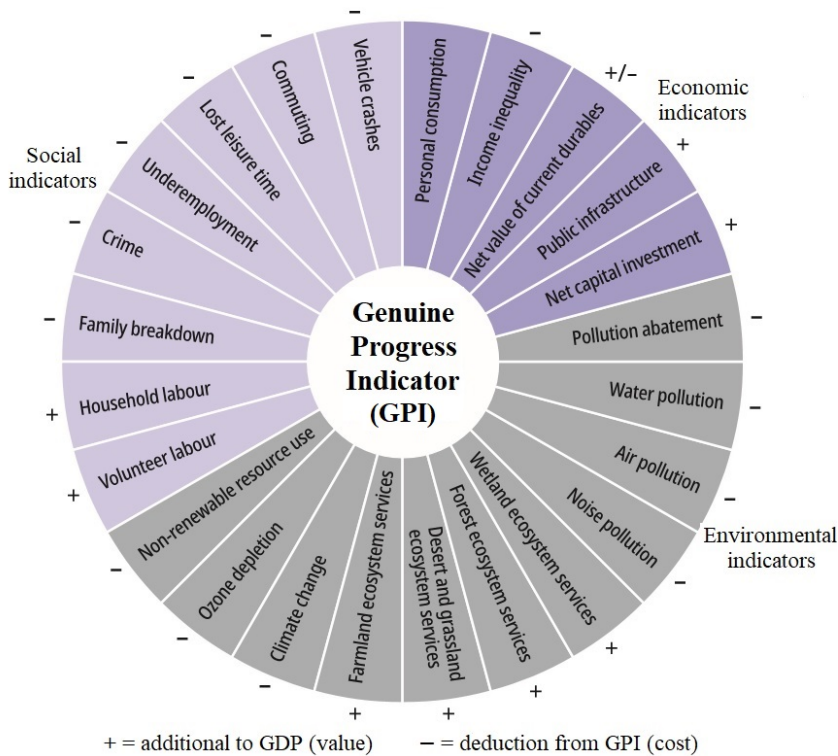


Figure 3.2: GPI components used for assessment (Source: Berik 2020)²⁵⁸

Note: See Appendix 3.1 for more details on the calculation of the components.

By separating activities that diminish welfare and, more specifically, well-being from those that enhance it, GPI better approximates sustainable economic welfare.²⁵⁹ GPI is actually not meant to be an indicator of sustainability per se. It is a measure of economic welfare that needs to be viewed alongside biophysical and other indicators.

Moreover, since one only knows if a system is sustainable after the fact, there can be no direct indicators of sustainability,

only *predictors*. GPI, though, as a predictor indicator, helps to attain economic sustainability. In the framework, GDP is increased twice when pollution is created since it increases once upon creation (as a side-effect of some valuable process) and again when the pollution is cleaned up; in contrast, GPI counts the initial pollution as a loss rather than a gain, generally equal to the amount it will cost to clean up later plus the cost of any negative impact the pollution will have in the meantime. This shows not only the *subsequent*-indicator effect but also the predictor-indicator effect of GPI.

Admitting, though, the methodological objectivity of Fisherian measures such as the GPI is at times a challenge because they are less clear in that they necessitate value judgements over what does and does not constitute welfare-enhancing forms of consumption, what costs and benefits are added or deducted from such consumption, and how these costs and benefits ought to be measured.²⁶⁰ It is, therefore, necessary to make *explicit* these more subjective aspects of the GPI.

As reflected in Appendix 3.1, it can be done by identifying core principles⁸ of sustainable development to guide GPI accounting.²⁶¹ Firstly, it requires a non-declining level of well-being for future generations. Secondly, social, environmental and economic needs must be met *in balance* with each other for sustainable outcomes in the long term (emphasising interdependence).²⁶²

Thirdly, increasing the benefits from a given stock of resources by “living off the interest of natural resources”.²⁶³ The fourth principle⁹ is that of *thermodynamic efficiency*: “A comprehensive *bookkeeping* system to track the flows of energy, matter, and information through the economy, which is itself an open system embedded within the closed system of the earth’s biosphere”.²⁶⁴ Figure 3.3 provides a schematic

8 Note that Pezzey (1992) groups such principles into two major categories: *ends*-based definitions, such as non-declining per capita consumption or utility, and *means*-based definitions, such as a non-declining stock of human and natural capital from which future generations can produce well-being. The GPI aligns more with the latter.

9 This approach calls for recognition of the limits imposed on the economic system by the first and second laws of thermodynamics. The *first law* of thermodynamics states that matter and energy can neither be created nor destroyed. They can only be converted from one form to another. The *second law*, also known as “entropy law”, states that all physical processes proceed in such a way that availability of energy involved decreases, i.e., the entropy of a closed system always increases. Entropy can be cognised as a measure of disorder or energy not available for work.

outline of applying the first and second laws of thermodynamics in economics.

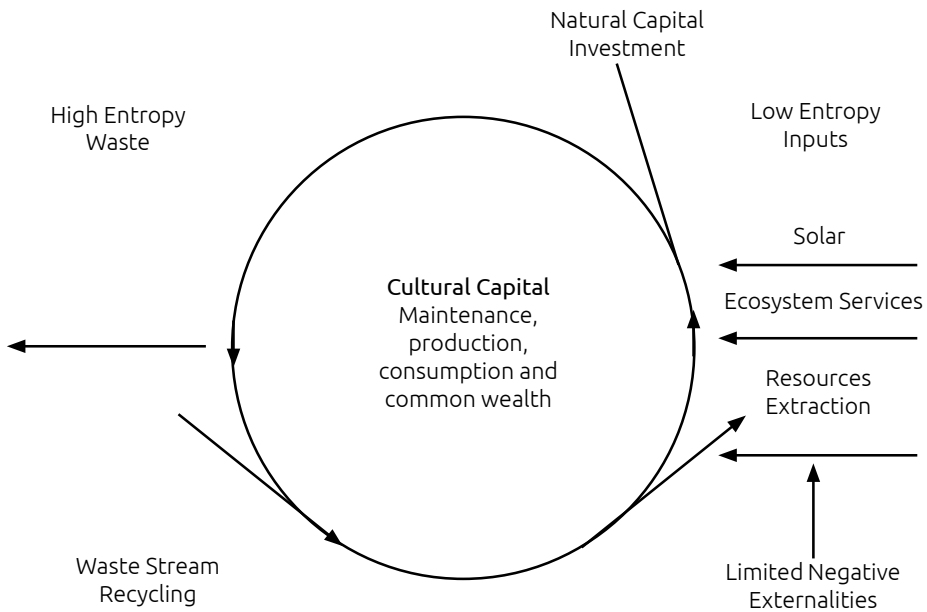


Figure 3.3: A more sustainable economy based on minimising throughput (Source: Talberth et al. 2006)²⁶⁵

While quantifying the costs and benefits of these environmental and social externalities is a difficult task, *Earthster*-type databases (used to calculate environmental impact/footprint) could bring more precision and currency to GPI's metrics.²⁶⁶ It has been noted that such data may also be embraced by those who attempt to *internalise externalities* by making companies pay the costs of the pollution they create (rather than having the government or society at large bear those costs) by taxing their goods proportionally to their negative ecological and social impacts.

What follows in Table 3.1 is an example of the indices used to calculate Singapore's GPI.²⁶⁷ This helped policy-makers in Singapore tremendously to *identify weaknesses* in their national policy. It also increased public awareness while being easy to understand due to its structural similarities to GDP. The sign that follows the indices shows whether they are added or deducted from the GPI.

Table 3.1: Items used for the calculation of Singapore's GPI

	Economic	Social	Environment
Weighted adjusted consumption expenditure ($\pm$)	Personal and public consumption expenditure (+)	Value of non-paid household labour (+)	Cost of non-renewable resource depletion (–)
	Defensive and rehabilitative expenditure (–)	Value of volunteer labour (+)	Cost of agricultural land degradation (–)
	Expenditure on consumer durables (–)	Cost of security and external relations (–)	Cost of fisheries depletion (–)
	Services from consumer durables (+)	Cost of unemployment and underemployment (–)	Cost of premature mortality due to air pollution (–)
	Income distribution index ($\pm$)	Cost of overwork/lost leisure time (–)	Cost of environmental degradation (–)
	Services yielded from fixed capital (+) Change in net foreign assets ($\pm$)	Cost of family breakdown (–)	Cost of climate change (–) Cost of lost wetland (–)

(Source: Delang 2016)²⁶⁸

The Sustainable Development Goals (SDGs) adopted by the United Nations and many countries around the world highlight the urgency of using robust quantitative sustainability metrics that go beyond GDP. While the GPI is currently not effusively available for use in cross-country analyses as preferred, it will be measurable using a standard methodology once certain data issues have been resolved and a consensus is reached on the more recent GPI 2.0.²⁶⁹

In response to new demands regarding economic sustainability and to help ensure that the GPI remains *policy-relevant*, practitioners around the world have called for greater consistency and a uniform framework for guiding future GPI studies.²⁷⁰ In this regard, GPI 2.0 takes advantage of the increasing availability of data and the most recent scientific understanding of factors influencing human well-being.

As an example of the increasing resolution of data available, the number of money people spend on items in their daily lives was inferred from national data and considered together in GPI 1.0, whereas in 2.0, researchers are able to consider data gathered for household spending

in areas such as Maryland broken into 17 different categories.²⁷¹ This helps with making the *determination* of what expenditures are contributing to well-being on a finer scale.

Recent scientific literature contributed to improving the determination of several indicators, including the cost of inequality, the cost of air pollution, the value of ecosystem services, and the cost of noise pollution.²⁷² Spatial data are being used to calculate some indicators, like the extent of forests in a specific region or area and the cost of air pollution. Practically, many regions/countries that have measured their GPI (1.0) have relied on data from around 1960 to 2011, but since 2012 more regions have had enough data available to calculate *genuine progress* using the GPI 2.0 methodology.

However, it remains a challenge – also in making comparisons – that the effective use of the results depends on the availability of recent data, which often does not extend very far into the past. Moreover, the *main obstacles* to its widespread use are a lack of political leadership and institutional support. There is no doubt, however, that improving the GPI and its estimates can provide better information for decision-making by all economic and political role players.

Indices measuring holistic economic progress

As mentioned, the GPI was developed out of the ISEW by Daly and Cobb (1990).¹⁰ Since then, a variety of indices emerged, attempting to assess economic welfare and/or economic well-being in order to develop more comprehensive metrics/gages for measuring economic progress in a *broad*er, more holistic context than simply GDP. Concisely highlighted here are some of the leading indices used by countries and international institutions.

Human Development Index (HDI)

This is probably the best well-known index for measuring human development apart from GDP per capita. The Human Development Report Office of the United Nations Development Programme (UNDP) has produced, since 1990, an annual Human Development Report in

10 Actually, the first alternative measure to GDP was developed by Nordhaus and Tobin in 1972, the Measure of Economic Welfare (MEW). The MEW is essentially GDP corrected for *regrettable* defensive expenditures and income distribution (journal publication in *Economic Research: Retrospect and Prospect*, “Is growth obsolete?”). It was the first to adjust the measure of total national output, to include only items that help improve economic well-being.

which countries are ranked according to their HDI scores. The index is based on the approach developed by Mahbub ul Haq and is often framed in terms of whether people are able to *be* and *do* desirable things in life, for example, *being* (well-fed, sheltered and healthy); and *doing* (work, education, voting and participating in the community life).

The very first Report stated its premise: “People are the real wealth of a nation and human development is all about enlarging their choices”.²⁷³ The HDI is a statistic composite index of life expectancy, education (mean years of schooling for adults aged 25 years and more and expected years of schooling for children of school-entering age), and per capita income indicators, which are used to rank countries into four tiers of human development. Scores are between 0 and 1. A country scores a higher HDI (closer to 1) when citizens’ lifespan is higher, the education level is higher, and gross national income (GNI) per capita is higher than the year before.

The index does not take into account factors such as the net wealth per capita, the relative quality of goods in a country, inequalities, human security, poverty or empowerment. The HDI was created to accentuate that people and their capabilities should be the *ultimate criteria* for assessing the development of a country, not economic growth alone.²⁷⁴ The HDI is often used to question national policy choices, asking how two countries with the same level of GNI per capita can end up with different human development outcomes.

These contrasts can stimulate debate about government policy priorities. The HDI is a *summary measure* of average achievement in key dimensions of human development: Living a long and healthy life, being knowledgeable and having a decent standard of living. The HDI is the geometric mean of normalised indices for each of the three dimensions. Figure 3.4 illustrates the HDI approach in assessing this fuller picture of a country’s level of human development.

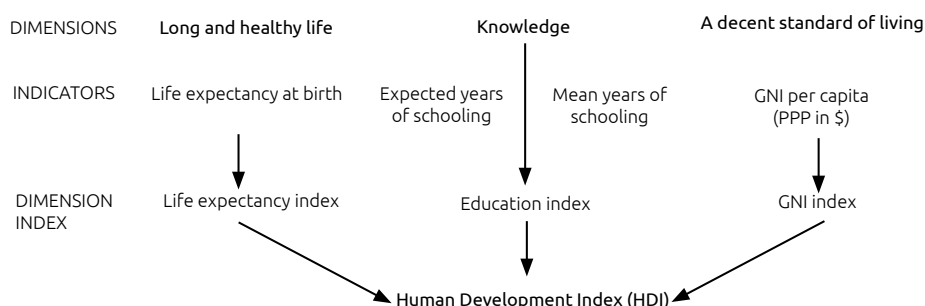


Figure 3.4: Components of the HDI (Source: UNDP 2021)²⁷⁵

The 2010 Human Development Report introduced an Inequality-adjusted Human Development Index (IHDI). While the simple HDI remains useful, it states that:

The IHDI is the actual level of human development (accounting for inequality), while the HDI can be viewed as an index of *potential* human development (or the maximum level of HDI) that could be achieved if there were no inequality.²⁷⁶

The IHDI combines a country's average achievements in health, education and income with how those achievements are distributed among its population by *discounting* each dimension's average value as per its level of inequality.²⁷⁷ Hence, the IHDI is the distribution-sensitive average level of human development.²⁷⁸ Two countries with different distributions of achievements can have the same average HDI value. Under perfect equality, the IHDI is equal to the HDI, but if inequality rises, it will fall below the HDI. Figure 3.5 shows the change in the Index.

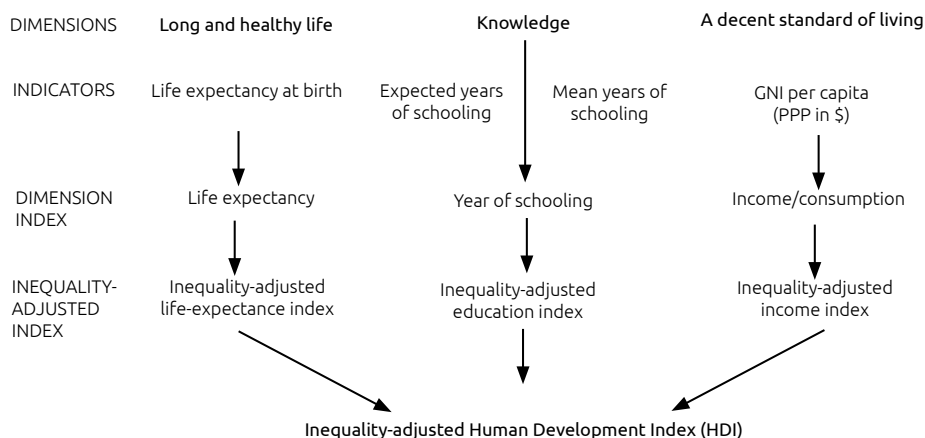


Figure 3.5: Elements of the IHDI (Source: UNDP 2021)²⁷⁹

The IHDI is calculated for 152 countries, showing the human development cost of inequality, also termed “the *overall loss to human development due to inequality*”. This is the main improvement on the old method (HDI before 2010). Considering first the HDI, it is calculated by *combining* its three dimensions. Allowing different indices to be added together, a raw variable, say x, can be transformed into a unit-free index between 0 and 1 by using the following formula:

Chapter 3

$$x \text{ index} = \frac{x - a}{b - a}$$

Where a and b are the lowest and highest values the variable x can attain, respectively.

The HDI then represents the uniformly weighted sum with $1/3$ contributed by each of the following factor indices: Life Expectancy Index (LEI); Education Index (EI), consisting of the Adult Literacy Index (ALI) and the Gross Enrolment Index (GEI); and a weighted GDP value.

$$LEI = \frac{LE - 25}{85 - 25} \quad \dots I_{Health}$$

$$EI = \frac{2}{3} \times ALI + \frac{1}{3} \times GEI \quad \dots I_{Education}$$

$$ALI = \frac{ALR - 0}{100 - 0}$$

$$GEI = \frac{CGER - 0}{100 - 0}$$

$$GDP = \frac{\log(GDP_{pc}) - \log(100)}{\log(40000) - \log(100)} \quad \dots I_{Income}$$

$$HDI = (I_{Health} \cdot I_{Education} \cdot I_{Income})^{1/3}$$

For calculating the IHDI, there are three steps: estimating inequality in the dimensions of the HDI, adjusting the dimension indices for inequality, and combining the dimension indices. The IHDI draws on the Atkinson (1970) family of inequality measures and sets the aversion parameter ϵ equal to 1.²⁸⁰ In this case, the inequality measure is $A = 1 - g/\mu$, where g is the geometric mean and μ is the arithmetic mean of the distribution. It can be written as:

$$A_x = 1 - \frac{\sqrt[n]{X_1 \dots X_n}}{\bar{X}}$$

(Step 1)

where $\{X_1 \dots X_n\}$ denotes the underlying distribution in the dimension of interest. A_x is obtained for each variable (life expectancy, mean

years of schooling and disposable household income or consumption per capita).²⁸¹

The inequality-adjusted dimension indices are obtained from the HDI dimension indices, I_x , by multiplying them by $(1-A_x)$, where A_x , defined by the equation above, is the corresponding Atkinson measure:

$$I_x^* = (1 - A_x) \cdot I_x$$

(Step 2)

The IHDI is thus the geometric mean of the three-dimension indices adjusted for inequality:

$$\begin{aligned} IHDI &= (I_{Health}^* \cdot I_{Education}^* \cdot I_{Income}^*)^{1/3} \\ &= [(1 - A_{Health}) \cdot (1 - A_{Education}) \cdot (1 - A_{Income})]^{1/3} \cdot HDI \end{aligned}$$

(Step 3)

The loss in HDI value due to inequality is:

$$Loss = 1 - [(1 - A_{Health}) \cdot (1 - A_{Education}) \cdot (1 - A_{Income})]^{1/3}$$

Lastly, an unweighted average of inequalities in health, education and income is denoted as the coefficient of human inequality. It averages these inequalities using the following arithmetic mean:

$$Coefficient\ of\ human\ inequality = \frac{A_{Health} + A_{Education} + A_{Income}}{3}$$

In this way, the IHDI measures the level of human development when inequality is accounted for. Notably, the IHDI allows a *direct link* to inequalities in different dimensions, it can inform policies towards inequality reduction, and it leads to a better understanding of inequalities across the population as well as their contribution to the overall human development cost.²⁸²

Among the significant findings of IHDI results so far is that the average world loss in HDI due to inequality is about 23% – ranging from 5% (Czech Republic) to 43.5% (Namibia).²⁸³ People in Sub-Saharan Africa suffer the *largest losses* due to inequality in all three dimensions, followed by South Asia and the Arab States. Sub-Saharan Africa endures the highest inequality in health, while South Asia and

the Arab States have considerable losses due to unequal distribution in education. Latin America and the Caribbean experience the largest loss of any region due to inequality in income (39.3%).

Gross National Happiness index

A number of *happiness* indicators and indices exist that aim to measure/ gauge the state of the economy through the lens of the *state of the people*: Firstly, the Gross National Happiness index (GNH index) was coined by the Fourth King of Bhutan, King Jigme Singye Wangchuck, in 1972 when he declared, “Gross national happiness is more important than gross domestic product”.²⁸⁴

Ever since then, the country of Bhutan has adopted and integrated a GNH framework in economic and social policy. The term ‘happiness’, as a generalisation of *life satisfaction*, suggests that sustainable development should take a holistic approach toward notions of progress and give equal importance to non-economic aspects of well-being.

More specifically, the GNH is differentiated from GDP by valuing collective happiness as the goal of governance by emphasising harmony with nature and traditional values, as expressed in the nine domains of happiness (characterised by 33 indicators) and four pillars (of the well-being of the population) that make up the construction of the GNH index. According to the Bhutanese government, they are as follows (see Table 3.2).²⁸⁵

Table 3.2: The components of the Gross National Happiness Index

GNH Domains		GNH Pillars
1. Psychological well-being	6. Good governance	1. Sustainable and equitable socio-economic development
2. Health	7. Community vitality	2. Environmental conservation
3. Education	8. Ecological diversity and resilience	3. Preserving and promoting the culture
4. Time use	9. Living standards (quality of life)	4. Good governance
5. Cultural diversity and resilience		

(Source: Karma et al. 2012)²⁸⁶

Each domain is composed of subjective (survey-based) and objective indicators. The domains weigh equally, but the indicators within

each domain differ in terms of weight. The domains work differently depending on the *person's GDP*.²⁸⁷ For example, one person's life might be consumed with work, leaving barely any time for friends and family, while another person might not have the same work opportunities but at least gets to spend more quality time with friends and family.

The latter person is, according to this index, not necessarily worse off compared to the person who is just in it for work. In other words, a person can be happier in life when focusing on other things that *also matter* (e.g., relationships for social cohesion), resulting in him/her having a larger GNH value. Notably, quality of life is measured and appreciated here in a multi-faceted way.

The GNH Index, reflecting sufficient scientific rigour, is constructed based upon a robust multi-dimensional methodology known as the 'Alkire-Foster method'. It is a flexible technique for measuring poverty or well-being. It builds on the Foster-Greer-Thorbecke poverty measures and involves counting the different types of deprivation that individuals experience at the same time, such as a lack of education or employment or poor health or living standards.²⁸⁸ These *deprivation profiles* are analysed to identify who is poor and then used to construct a multidimensional index of poverty.

Calling happiness¹¹ a "fundamental human goal", the United Nations General Assembly, in 2011, passed Resolution *Happiness: towards a holistic approach to development* and urged member nations to follow the example of Bhutan and measure happiness and well-being.²⁸⁹ In 2012, Bhutan's Prime Minister, Jigme Thinley, and the then Secretary-General Ban Ki-Moon of the United Nations convened the *High-Level Meeting: Well-being and Happiness – Defining a New Economic Paradigm* to encourage the spread of Bhutan's GNH philosophy.

Significantly, at this meeting, the first World Happiness Report was issued. Since then, this report has become an annual custom by the United Nations Sustainable Development Solutions Network to rank countries in terms of national happiness. Based on respondent ratings of people's own lives, which the report also correlates with various (quality of) life factors, results have shown that Finland has most recently (2018–2021) been the happiest country in the world.²⁹⁰

11 To be clear, this *happiness* has nothing to do with the common use of the word to denote an ephemeral, passing mood – happy today or unhappy tomorrow. Rather, it refers to the deep, abiding happiness; fulfilment in life; and life satisfaction (or utility satisfaction, which is quite similar to Irving Fisher's concept of *psychic income*).

The report primarily uses data from the Gallup World Poll and World Values Survey. The rankings of national happiness are based on a *Cantril ladder survey* (nationally representative samples of respondents are asked to think of a ladder, rating their own current lives, with the best possible life for them being a ten and the worst possible life being a zero). Essentially, the report correlates the life evaluation results with various life factors.

An *interesting comparison* is the size of an economy versus the happiness of its people. Table 3.3 shows that while the US, China, Japan, Germany and India are the largest economies in terms of GDP, the people there were *not as happy* as the people in Finland, Iceland, Denmark and Switzerland, as indicated by their 2021 happiness ranking. GDP per capita is lower in Finland than in the US, for example, but life satisfaction – and perhaps the quality of life – is higher. It shows how *relative* progress in terms of economic growth can be and why ensuring genuine economic progress needs a holistic approach.

Table 3.3: Size of the economy vs happiness (average life evaluations)

Size of the Economy vs Happiness				Happiness vs Size of an Economy		
Top Five Nations	Size of Economy	GDP per Capita 2019 (Current US\$)	Happiness Rank 2021	Top Five Nations (Happiness 2021)	Size of Economy	GDP per Capita 2019 (Current US\$)
USA	US\$21.4 trillion	65,298	14	Finland	US\$269 billion	48,782
China	US\$14.3 trillion	10,262	52	Iceland	US\$24.2 billion	66,944
Japan	US\$5.08 trillion	40,247	40	Denmark	US\$350 billion	60,170
Germany	US\$3.86 trillion	46,445	7	Switzerland	US\$703 billion	81,993
India	US\$2.87 trillion	2,100	92	Netherlands	US\$909 billion	51,290

(Sources: World Bank Group Data; Helliwell et al. 2021; Shrotryia & Singh 2020)²⁹¹

Another happiness indicator that was developed in 2006 by the New Economics Foundation (NEF) was the Happy Planet Index (HPI). In this index of human well-being and environmental impact, each country's

HPI value is a *function* of its average subjective life satisfaction, life expectancy at birth and ecological footprint per capita.²⁹² The index is weighted to give progressively higher scores to nations with lower ecological footprints. In this way, the HPI distinguishes itself by taking sustainability arguably better into account than other measures of welfare.

Contending that it *measures what matters*: i.e., sustainable well-being for all, the HPI is based on the assumption¹² that the usual ultimate aim of most people is not to be rich but to be happy and healthy.²⁹³ It is furthermore believed that the notion of sustainable development requires a measure of the environmental costs of pursuing those goals. Out of 140 countries surveyed in 2016, Costa Rica (44.7) was first, Mexico (40.7) second and Columbia (40.7) third, according to the highest HPI scores. The basic formula applied in this index is as follows:

$$\text{HPI} = \frac{\text{Well-being} \times \text{Life Expectancy} \times \text{Inequality of Outcomes}}{\text{Ecological Footprint}}$$

Where: *Well-being* is defined as how satisfied the residents of each country say they feel with life overall, on a scale from zero to ten, based on data collected as part of the Gallup World Poll; *Life Expectancy* is defined by the average number of years a person is expected to live in each country based on data collected by the United Nations; *Inequality of Outcomes* is described as the inequalities between people within a country, in terms of how long they live, and how happy they feel, based on the distribution in each country's life expectancy and well-being data (inequality of outcomes is expressed as a percentage); and *Ecological Footprint* is defined by the average impact that each resident of a country places on the environment, based on data prepared by the Global Footprint Network (ecological Footprint is expressed using a standardised unit: global hectares (*gha*) per person.²⁹⁴ The more creative way in which the formula is often expressed is:

12 Providing substance to this, a 2006 poll in the UK found that 81% of people support the idea that government's main objective for its citizens should be the "greatest happiness" rather than the "greatest wealth".

$$\text{HPI} = \frac{\text{Smiley Face} \times \text{Heart} \times \text{Scales}}{\text{Lightbulb}}$$

Lorenzo Fioramonti points out that the value of indices like the HPI and the GNH is that it effectively *resets* the economic ideals we have for policy, economic interaction and *how* we pursue our economic goals. In this context, he states that:

A happy individual is a person who is well integrated into a community, who can participate in governance, who gets access to good public education and healthcare, and who can meet his or her needs in harmony with social and natural systems.²⁹⁵

Large income differentials and pure self-interest are mostly discouraged in order to support more collaborative lifestyles. These indices prompt a *review* of policy proposals and budget allocations, as well as long-term planning of the government and the business community. Regarding the *correlation* between happiness and money income, Dietz and O'Neill underline that happiness and life satisfaction do tend to increase with income, but only up to a point.²⁹⁶ Their research on data from 141 countries from the years 2000 to 2009 shows that beyond an average national income of around 20 000 USD a year, additional money does not appear to buy additional happiness.

Well-being Index

This measure of economic well-being and life satisfaction was created by the Office for National Statistics (ONS) in the UK in 2010 through its Measuring National Well-being Programme. It analyses the *interdependencies* between health, relationships, education and skills, what we do, where we live, our finances, governance and the environment.²⁹⁷ It includes positive data but also includes surveys and questionnaires with the aim of developing better measurements of *quality of life* and developing policies based on what matters most to people. It actually originates from a report by the Commission for the Measurement of Economic Performance and Social Progress. Significantly, it found that:

It is possible to collect meaningful and reliable data on subjective as well as objective well-being. Subjective well-

being encompasses different aspects (cognitive evaluations of one's life, happiness, satisfaction, positive emotions such as joy and pride, and negative emotions such as pain and worry) ... [subjective well-being] should be included in larger-scale surveys undertaken by official statistical offices.²⁹⁸

The Centre for Well-being describes personal well-being as *how satisfied* people are with their lives, their sense that what they do in life is worthwhile, their day-to-day emotional experiences (happiness and anxiety) and their wider mental well-being.²⁹⁹ The collection of subjective well-being data is now an integral part of the UK ONS Well-being programme, as one of the vital components of National Well-being, alongside other measures of society, economy, the environment, and the sustainability of well-being in the future. By using surveys, three broad approaches are followed by the ONS:³⁰⁰

- *Evaluative* – requiring respondents to make an appraisal or cognitive reflection of their life (e.g., asking to provide an assessment of their health, job or relationships).
- *Experience* – requiring respondents to provide an assessment of the emotional quality of an experience in terms of the frequency, intensity and type of effect or emotion at any given moment (e.g., happiness, sadness, anxiety or excitement).
- *Eudemonic* – measuring factors not reflected in evaluative or experience measures, such as autonomy, control, competence, engagement, good personal relationships, a sense of meaning, purpose and achievement. These measures reflect people's underlying psychological needs and are also known as 'measures of flourishing'.

In 2011, ONS introduced four subjective well-being questions to its largest annual household survey. The *Cantril ladder of life* method is employed where all questions use a 0 to 10 scale. The aim was to develop a balanced set of subjective well-being questions that takes account of the different approaches to measuring personal well-being.³⁰¹ The four questions are:

- Overall, how satisfied are you with your life nowadays? (Experience);
- Overall, to what extent do you feel the things you do in your life are worthwhile? (Eudemonic);
- Overall, how happy did you feel yesterday? (Positive affect); and
- Overall, how anxious did you feel yesterday? (Negative affect).

Using a relatively new methodology and being quite experimental in terms of economic data, *key findings* over the past decade include that those in the middle years (45-54) have the lowest scores in terms of well-being (i.e., a combination of life satisfaction, a sense that what one does in life is worthwhile, and happiness), while scores are higher for younger age groups, and peaks in the 65-79 age group, while well-being is lower for the 80 plus group.³⁰²

More findings include those in very good health who have the highest life satisfaction, highest sense that the things they do in life are worthwhile, highest happiness, and the lowest anxiety; and well-being, as reflected in all three areas, is *critical* for being economically productive and creative/entrepreneurial, both from an income and non-income perspective.³⁰³

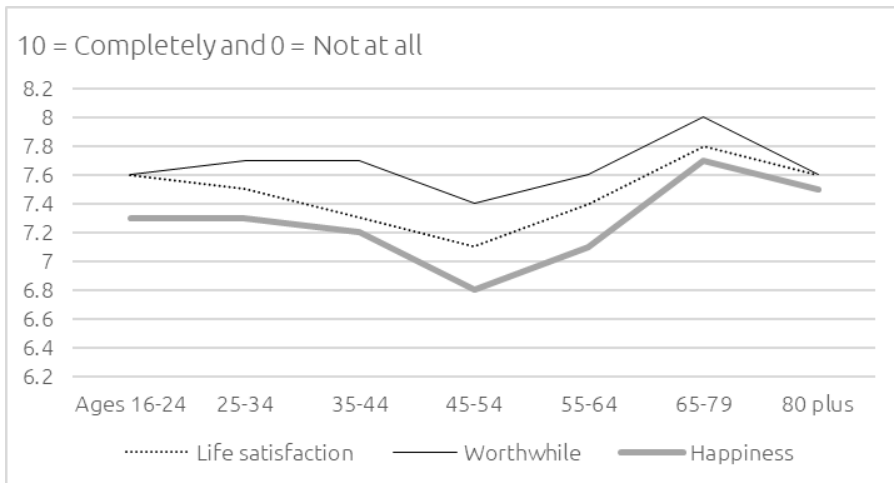


Figure 3.6: Average well-being for the UK (2011-2020) (Sources: Data from Tinkler 2015, Pettinger 2017; ONS 2021)³⁰⁴

Considering the economic significance of personal and collective well-being from both an *optimal participation* perspective and a *better measurement of progress* perspective: well-being indices make a substantial contribution to both qualitative and quantitative assessments (and data capturing). Other examples of valuable well-being indices include:

- The Community Well-being Index by Sharecare, in partnership with Boston University.³⁰⁵
- The *Canadian Index of Well-Being* is a composite index consisting of eight interconnected domains that measure stability and change

in Canadians' well-being over time; captured in its description of well-being: "The presence of the highest possible quality of life in its full breadth of expression focused on but not necessarily exclusive to: good living standards, robust health, a sustainable environment, vital communities, an educated populace, balanced time use, high levels of democratic participation, and access to and participation in leisure and culture".³⁰⁶ The index is used as a *companion measure* of societal progress to the GDP, which is based solely upon economic productivity/output.

- The *National Accounts of Well-Being* by the New Economics Foundation is an initiative to include well-being measures in countries' national accounts on a regular and systematic basis. In its working model, it differentiates between personal well-being¹³ and social well-being. In national comparisons, one interesting and recurrent finding is that countries with high levels of personal well-being do *not necessarily* have high levels of social well-being, and vice versa.³⁰⁷ In such cases, policy-makers can then analyse the economic, social and political structures in these countries to identify the cause(s) of these discrepancies.

Life Quality Index (LQI)

The LQI is a calibrated compound social indicator of human welfare, reflecting the expected length of life in good health and enhancement of the quality of life through *access to income*. It combines two primary social indicators: the expectancy of healthy life at birth and the real GDP per person, corrected for purchasing power parity (PPP) as appropriate.³⁰⁸ Three essential human concerns are focused on in this index: the creation of wealth, the duration of life in good health and the time available to enjoy life, with the latter acting as a *multiplying factor* upon the value of that wealth.

Unlike the HDI, the LQI is derived rigorously from the economics of human welfare (development and quality of life) but can likewise be used to rank nations in order of human welfare.³⁰⁹ More importantly,

13 *Personal well-being* is broken down into five components: emotional well-being; satisfying life; vitality; resilience and self-esteem; and positive functioning (autonomy, competence, engagement, and meaning and purpose). *Social well-being* has two components: supportive relationships, and trust and belonging. Additionally, a satellite indicator for well-being within a specific area of people's lives was also created, e.g., well-being at work. This measures job satisfaction, satisfaction with work-life balance, the emotional experience of work, and assessment of work conditions.

however, it can serve as an objective function to be employed in setting national or corporate goals for managing risk and guiding the *effective allocation* of society's scarce resources for reducing risks to life or health. As such, the LQI is a summary indicator of net benefit to society for improving the overall public welfare by mitigating risks to life in a cost-effective manner.

One of the real benefits of the LQI is that it enhances our decision-making capacity in managing risks to life and health.³¹⁰ As stated by Cero, "it brings into sharp focus the choices and trade-offs we have to make between extension of life and creation of productive wealth".³¹¹ To illustrate, Figure 3.7 shows the difference in the quality of life among BRICS countries and G8 countries for 2020.

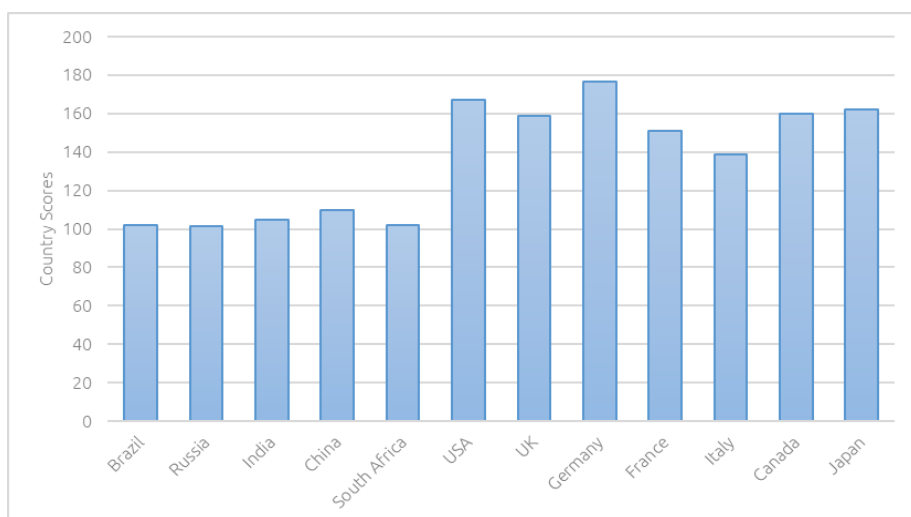


Figure 3.7: LQI: Country ranking comparison (2021) (Sources: Data from WorldData 2021; Numbeo 2021)³¹²

Better Life Index (BLI)

The Organisation for Economic Co-operation and Development (OECD) created this index as an attempt to bring together internationally comparable measures of well-being to address concerns that standard macroeconomic statistics like GDP failed to give a true account of people's current and future well-being.³¹³ First published in 2011 and originating from the Berlin-based agency, Raureif, it is unique in that it is an interactive tool that allows people to compare countries'

performances according to their own *preferences* in terms of what makes for a better life.³¹⁴

Making use of econometric modelling, the BLI includes eleven dimensions for measuring well-being. These are housing, income, jobs, community, education, environment, civic engagement, health, life satisfaction, safety and work-life balance. 2020 data suggest that Canberra is the world's *most liveable city*, Norway is the number one ranked country in terms of quality of life (Australia is second), and Europe is the continent where average well-being is the highest.³¹⁵ Having collected data from 40 countries, the BLI gives an indication of material living conditions and quality of life among these countries.

This is to some extent reflected in Figure 3.8 below, where the average attainment level for all 40 countries in each of the domains is indicated and where the leading country in each area is shown in the legend below the domain descriptions.

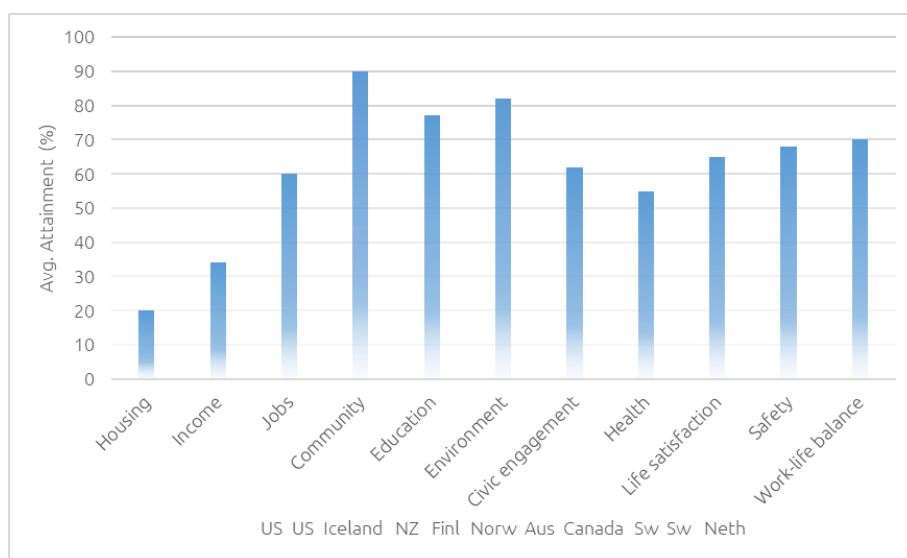


Figure 3.8: BLI attainment of well-being in 2019 (Source: Data from BLI 2021)³¹⁶

Note: The US led Housing and Income, Iceland led Jobs, New Zealand led Community, Finland led Education, Norway led Environment, Australia led Civic engagement, Canada led Health, Switzerland led Life satisfaction and Safety, while the Netherlands led Work-life balance.

In summary, it is important to note that each aggregate indicator (all these indices plus the GPI) strives to reflect a consensus on what is *important* to measure rather than reflecting universal agreement on every single indicator. Each adds a different emphasis; for instance, GPI 2.0 is a predictor-indicator that helps to attain, not reflect, economic sustainability; the IHDI measures the overall loss to human development due to inequality; the HPI differentiates itself by taking sustainability possibly better into account than other measures of welfare; the Well-being Index has given *credence* to subjective measures of well-being by their rigorous methods of scientific analysis; the LQI brought into picture the importance of *setting goals* for managing risk and guiding the effective allocation of society's scarce resources, which also helps to improve human well-being; and through the scientific tool they have created, the BLI empowers people to compare countries' performances in terms of well-being from the perspective of their own preferences regarding what makes for a better life.

It is useful now to compare these indices to clearly see their different (and similar) emphases and what are the main *focus point variables* they consider as they attempt to measure (and indicate) genuine economic progress beyond GDP. This is done in Table 3.4.

It is important to remember that GDP incorporates many arbitrary decisions, as noted earlier. The GPI and other well-being indices at least minimise these problems and strike a *better balance* between them. Table 3.4 compares the strengths and shortcomings of each major beyond-GDP indicator, focusing on the extent to which each seeks to *remedy* the shortcomings of GDP and serves as a guide for addressing the pressing well-being concerns of our times and for policy.

The System of Integrated Environmental and Economic Accounting (SEEA)

There are still several economists worldwide who remain unconvinced and even uncomfortable with including any subjective measures/indicators into the *equation* when measuring economic progress. Many of them are more at ease with something like the SEEA, which is a satellite system to the United Nations System of National Accounts (SNA).^{14,317} Making comparisons more compatible: the definitions, guidelines and practical approaches of the SNA are applied to the SEEA.

14 The SNA is a United Nations international standard system of national accounts, adopted by many nations since 1953.

Table 3.4: Strengths and shortcomings of some of the key beyond -GDP indicators and indices

	GPI	IHDI	HPI	LQI	BLI
Approach	Monetary or dashboard	Composite index	Composite index	Composite index	Dashboard
Relation to GDP (or to GDP p/c)	Adjusts	Includes	No	Includes	No
Incorporates: - Inequality - Environment - Non -market activities - Dynamics of paid work	Yes Yes Yes Yes	Yes No No No	Yes Yes No No	No No No No	Somewhat Yes Yes Yes
Enables: - Cross -country comparability - Assessment of change over time for each country (%)	No Yes	Yes No (189 countries)	Yes No (140 countries)	Yes No (83 countries)	Yes No (40 countries)

(Source: Berik 2020; Smale & O'Rourke 2018)¹⁰⁰⁷

This system enables environmental statistics to be *compared* to economic statistics as the system boundaries are the same after some processing of the input statistics. Analysing statistics on the economy and the environment at the same time makes it possible to identify different *patterns* of sustainability for consumption and production.³¹⁸ It can also show the economic consequences of maintaining a certain environmental standard. Originally, Agenda 21 of the 1992 Rio Earth Summit endorsed it because it adjusted the key economic indicators of GDP, capital and income.

When measuring economic activity, the SEEA accounts additionally for the costs of hitherto ignored environmental impacts. It adjusts the standard economic indicators by further deducting these new environmental costs. Since 1992, however, SEEA has been *revised* twice. The latest 2012 version appears to reject the full adjustment of accounting aggregates as a matter of research and experimentation.³¹⁹ The SEEA thus *avoids* being drawn into the debatable measurements of well-being, happiness, quality of life or sustainable development.

Compatibility with the national accounts should appeal to policy-makers who wish to compare the conventionally measured and *greened* performance of the economy. Contrary to the original SEEA, the latest revision relegates environmental degradation, mostly from pollution, and its monetary valuation to future research and experimental ecosystem accounting.³²⁰ Allowing only for the depletion of economic and natural resources, which are already part of the national asset accounts, appears to be like omitting the environment from environmental-economic accounting.

Moreover, satellite accounts leave the conventional national accounts *untouched*, even if they ignore running down economic resource stocks of minerals, timber or fish. While SEEA remains a valuable tool, a number of questions have arisen, which remain largely unanswered so far: should the conventional accounts adjust their economic indicators for natural resource depletion? Do we need a satellite of the satellite accounts to include environmental degradation in the SEEA? Will satellite accounts continue to be ignored by policy-makers?

Answering these questions will determine the extent to which SEEA will be *adopted* by countries' official statistical services and contribute effectively to assessing genuine economic progress. Whether countries should somehow make use of SEEA is without question.

Despite the limitations of SEEA (like any other indicator), it has led the Canadian province of Nova Scotia to officially commit to the task of *valuing* natural, human and social capital, in addition to build and financial capital, toward the goal of producing “a new form of budget estimates, a new set of accounts, and a new economic paradigm”.³²¹ Canada has *extended* its System of National Accounts to value volunteerism and the non-profit sector as a component of its social capital.

Progress: From innovation for profits to innovation for well-being

Although often used interchangeably, the words *welfare* and *well-being* have two very different meanings in economics and two different implications as far as innovation is concerned. Steffie Verstappen points out that economic growth, as measured by GDP, generally has very little to do with human well-being per se.³²² The term ‘welfare’ has gradually, due to neoclassical thinking, been reduced to refer primarily to material well-being (including profits) since it has been set in a particular relationship to economic growth and production.

Whereas welfare mainly refers to income, well-being is a more *holistic* concept. The difference between welfare and well-being is also indicative of the gap between the kind of progress that is focused in terms of growth and that which is conducive to improvements in the quality of life for most citizens.

This serves as motivation to reverse the trend towards a reductionist notion of welfare and to mobilise a *broader* conception of well-being.³²³ Welfare, in probably its most familiar use, refers to a collection of government programs such as grants and food stamps, usually intended to help the poor. Welfare in this sense more commonly refers to the condition of an entire country or economy, which is sometimes emphasised by using the phrase *social welfare*, relating to a welfare state¹⁵.

Concomitantly, governments typically construct a *social welfare function*, which provides them with a simple guideline for achieving the optimal distribution of income. Inputs of the function include any variables considered to affect the economic welfare of society. One

15 A form of government that protects and promotes the economic and social well-being of the citizens, based on equal opportunity, equitable distribution of wealth, and public responsibility for those unable to provide for themselves.

use of a social welfare function is to represent prospective patterns of collective choice as regards to alternative social states.³²⁴ Subsequently, much like a social welfare function, empirical work by Ali and Son gave rise to what is called a “social opportunity function”.³²⁵ When there is genuine progress in an economy, it leads to the maximisation of the social opportunity function.

This is based on basically two factors: average opportunities available to the population; and how opportunities are shared/distributed among the population. By using a weighting scheme model, greater weight is allocated to the opportunities of the poor, making that more important than opportunities created for the non-poor. Ali and Son found that when opportunities enjoyed by a person are transferred to a poorer person, then social opportunity *increases*, which results in higher levels of genuine progress (especially inclusive growth). This is captured in what they call “an opportunity index”, which was successfully used in the Philippines.

Further illustrating the conceptual difference, the shift in emphasis from welfare to well-being is the increased use of the social opportunity function *instead* of only the social welfare function. This is building on the transition that was actually triggered by Stiglitz when he stated: “It is about broadening the growth base; about addressing the social characteristics and economic fundamentals of human well-being, not just welfare”.³²⁶

Well-being, therefore, does not imply moving towards a welfare state, which feeds *dependency*. Actually, it is the opposite, as it emphasises creating more productive opportunities for the poor to reduce dependency and empower people through *innovation*. Making genuine progress the main priority and bringing a *shift* from innovation for profits (only) to innovation for well-being, the key factor is a change¹⁶ in values.³²⁷

Importantly though, a distinction is needed because not all values have a positive impact on well-being. For instance, materialistic values – features of today’s exploitative economy – are *extrinsic* and orientated towards self-enhancement and include wealth, possessions, status and image. It is also associated with more discriminatory attitudes and behaviour, especially towards the poor. These are the values to move *away* from because they engage in social and ecological behaviours that can reduce other people’s well-being.

16 How to change a system? You *change* a system by changing the values (e.g., from neoliberal to inclusive values).

Opposite to this, humane values are *intrinsic*/self-transcendent, improving well-being, and are based on personal freedom, affiliation and community (strong relations with family and friends), genuine progress, and acting for the benefit of the common good. These values encourage empathy, solidarity and care for others and the environment.³²⁸ Importantly, a *realignment* at the level of values will bring about a drastic change in, particularly, the development paradigm, which is where the shift in innovation emphasis *must* occur.

When the motivation of innovation is altered, an enhanced understanding of development in terms of the *interplay* between individuality and sociality, individual initiative and social integration, individual autonomy and social cohesion start occurring.³²⁹ This is the economics of well-being characterised by genuine progress that is inclusive (even of the unpaid economy) and where *reciprocity* functions as a key allocation mechanism.

If human well-being is our starting point, we find that development should no longer only be about reducing poverty but should instead be about fundamentally confronting the origins of the unequal distribution of human well-being that currently exists in the world. The opportunity is for this *confrontation* to happen in an innovative way, encouraging new inventive ways to address the roots and branches of inequality.

The technology revolution of the Fourth Industrial Revolution (4IR) presents an ideal moment to move beyond standardised thinking about economic opportunities, to redefine what it means to be a consumer and a producer (why not be both, like a *prosumer*?), and to seize the moment in building a new economy based on a new set of (inclusive) values. As long as the old (extrinsic) values are not challenged, the potential of a true *well-being economy* will remain a dream.

“But things can change quickly as we realise that the economy is whatever we want it to be. Who makes the rules? We do,” says Professor Fioramonti.³³⁰ We simply need to build a new system of *social coordination*. In this way, well-being can be a powerful driver of change and innovation, based on a system of rewards and incentives that advance productive inclusion.

A system designed to promote well-being *must be* adaptable, integrative and empowering. Adaptable to each economy’s local conditions and changes in conditions by operating like a network that expands horizontally (not vertically, e.g., the trickle-down effect). Integrative, to build a stronger connection between production and

consumption logic and the real sources of the things we need to survive, like land, oceans and rivers. Empowering because well-being becomes the outcome of healthy relationships and opens up opportunities for the *roles* of economic participants to be reinvented.

Even our participation in governance can be altered from a one-dimensional growth- or welfare-state mindset to an integrated approach that involves participative governance. This empowers the people but also needs to manage the interconnectedness of equitable and sustainable well-being. The OECD calls it the *whole of government* approach.³³¹ It means running a country like a family – in which you don't pit one child against another in the hope that competition will increase efficiency. It means spending more on protecting the environment than on higher healthcare costs; spending more on education means spending less on crime and policing.

Such expenses are thus treated as *investments* in a happier society, while they have the potential for enormous returns. Both personal well-being and social/collective well-being will benefit from such an approach. Innovation for profits is surely needed, but innovation for well-being takes it *further* since it will yield more sustained (and exponentially higher) dividends. Plus, not only does the poor benefit, but such innovation also opens up many new opportunities for the rich.

Conclusion

Countries are always in need of ways to measure economic progress and goals to strive toward. The challenge identified early on by economists is to develop a composite indicator that can *gauge* the sustainability of the economy to contribute to human welfare. With mounting concerns about GDP as the leading indicator of society's progress, the United Nations, in 2000, established eight Millennium Development Goals (MDGs). These goals were only created for 15 years (until 2015) and only targeted half the world, the developing countries.

In 2016 the SDGs replaced the MDGs. Again, these goals are set for 15 years, but, unlike the MDGs, they target both the developed and developing world. Although a major step forward, the SDGs have certain limitations. The primary drawback is that with 17 goals, 169 targets and over 300 indicators in the economic, social and environmental areas, there is no single overarching goal or vision that society is striving toward.³³² The 17 goals have trade-offs that dilute the effectiveness of the SDGs toward a *common goal*.

If only, for instance, maximising human well-being was the implicit goal that the SDGs, and even the MDGs, aimed at. With such a goal, society would need a measure other than GDP to ascertain whether we were progressing toward achieving this goal or moving backwards. This is where genuine economic progress measures make a contribution.

An improvement in genuine economic progress is indicated by an increase in economic welfare in real terms and/or improvement in the well-being of a nation/community as a whole. This comprises inclusive GDP growth, GPI growth, inclusive development, social equity and full ecological responsibility. By taking social and environmental factors into consideration, it presents a more accurate picture of progress than simply income growth.³³³

This is when the GPI is above zero; zero indicates when the financial costs of poverty and pollution equal the financial gains in the production of goods and services; *ceteris paribus* (with other conditions remaining the same). In its improved GPI 2.0, it now includes non-income factors and subtracts social and environmental costs in much finer detail, with greater accuracy. While the GPI, just like GDP, is not a perfect measure of the performance of economies or a complete measure of welfare or sustainability and is still being refined, it represents a *meaningful departure* (along with other well-being measures) from the growth-only mantra.

Indices like the HDI (now IHDI), GNH, the Well-being Index, the LQI and others are valuable additional tools to help verify and further quantify genuine economic progress for countries or regions. Adding to the mix a comprehensive instrument like the SEEA, which includes no subjective measures, enhances the *objectivity* with which results are compared and decisions made about improving genuine economic progress at both policy and local levels.

Notably, all these genuine progress measures build on the concept of welfare-equivalent income or psychic income, first formulated by the economist Irving Fisher (1906), referring to the welfare households derive from their consumption activities. This definition of income, importantly, *moves the focus* away from the goods (income) produced in a given year to the services these goods provide for the consumers, net of their full, integrated production costs.³³⁴

While these alternative indexes are most valuable and theoretically sound, they require, in order to be broadly accepted, the continuous development of even more robust valuation methods. In addition, the focus should be on a combination of indicators instead

of a single *magic number*/instrument. We must learn from how GDP is (mis)used in this regard as well. While GPI and the indices attempt to generate summary indicators of economic progress, also through a single number, at least their combination (including GDP) is appreciated.

The benefits of a single number are easy reporting and easy scorekeeping. But the danger of using only one of them as a single indicator of progress is that it oversimplifies reality. That is why I propose that multiple measures be used that meaningfully complement (and verify) each other in a kind of *dashboard approach*.

Importantly, a steady-state economy – from which we can learn much – requires different measures of progress than those used to assess our current growth-centric economies. It fully recognises the value inherent in having both summary indicators and a suite of measures. From an inclusive economic perspective, what would work best is creating a set of indicators that takes a *hybrid approach*.³³⁵

This set would contain three groups: the environment, the economic system and human well-being. Each group would include one *headline indicator* and a number of more detailed sub-indicators. A critical distinction for genuine economic progress is that this grouping helps separate ends from means.

In the proposed indicator system, sustainable and equitable human well-being is considered the *ultimate end* or key outcome to strive toward. Other economic goals are means in support of this end. Figure 3.9 illustrates how human well-being is the ultimate end as it requires environmental sustainability and (improved) economic equality. The arrows point from means to ends, indicating how economic priorities ought to be sequenced.

The economic system must provide jobs, stable prices and equal opportunities to earn income to achieve a high level of well-being in society.³³⁶ Yet it depends on the environment because all resources used by the economy come from nature, and all wastes produced by it return to nature. So, a good headline indicator for the Environment Group of indicators would be the *ecological footprint*¹⁷.

Others, such as material and energy use, could be vital sub-indicators to complement the footprint. For the Economic System

17 The footprint calculates the biologically productive area of land and water needed to generate the resources consumed in a country, and absorb the wastes produced. It also accounts for the environmental impacts of global trade.

Group, a potential headline indicator is *income equality*. While full income equality is practically impossible, the emphasis here is on the fact that a high degree of equality in society is critical to achieving the goal of sustainable and equitable human well-being. The ratio of the incomes of the richest 20% to the poorest 20% of a country or a community is a simple measure to calculate and understand. It can be used as the headline indicator for this group.

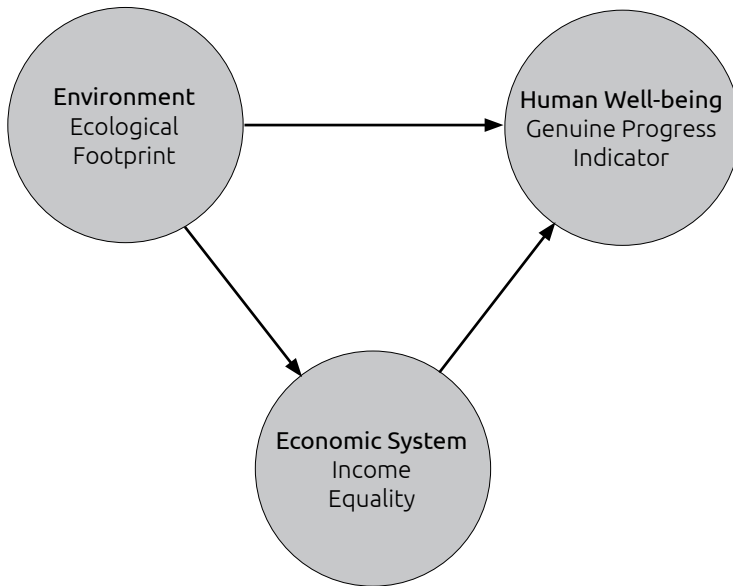


Figure 3.9: A proposed system of indicators aimed toward improving human well-being (Sources: Dietz & O’Neil 2013; Abdallah et al. 2010)³³⁷

The *GPI* (or even *GNH*) can be used as a headline indicator for the Human Well-being Group. Sub-indicators that measure people’s ability to thrive can be included in this group. This three-group ends-and-means system of indicators to supplement (not substitute) GDP holds *real potential* for ensuring genuine economic progress in a holistic manner. Further research will continue to identify improved methods to measure progress, but there is already enough knowledge and data gathering techniques to adopt better national accounting systems. There is *no excuse* anymore to gain a much clearer understanding of how well our economies are actually performing.

Importantly, the *combination* of inclusive growth indicators (e.g., the net growth rate or the Global Database of Shared Prosperity

(GDSP) and genuine progress or well-being indicators (GPI and IHDI) is important for determining how inclusive an economy is. In tandem, they provide a comparative picture of the *kind* of growth that occurs in an economy and *how* it directly affects people's quality of life and standards of living. If inequality and poverty, for instance, still increase while an economy is growing, you would be able to *detect* in more specific detail whether the issue is with growth itself, the distribution of growth, or complete non-participation in the economy by segments of society (total exclusion).

Through having a better indication of economic inclusivity, countries can design policies more tailored to stimulate that; businesses can adjust production processes; consumers can change spending patterns in line with an *economy of enough*, and communities can initiate more circular economic opportunities for those marginalised; all to improve inclusivity and, by implication, everyone's quality of life. This is the heartbeat of Ubuntu. When government policies, business plans, consumer behaviour and community activities collectively appreciate – in line with Ubuntu – the more complete potential of genuine progress, a special kind of quality of life that is truly organic in nature becomes possible.

Lastly, from a national income perspective, it is necessary to answer the following *question*: Can a nation's entire GDP be consumed without undermining its ability to produce and consume the same GDP in the future? This question is largely ignored in contemporary economics but is central to economic sustainability and genuine progress.

In view of an unfolding 4IR, genuine progress can only come from balancing extremes. Innovation that benefits everyone is critical to achieving this *balancing* of increased interdependency (global village) and increased individualised profit-seeking. The right kind of change is necessary, which has to include systemic change. In sum, all this contributes positively to a move towards what the Aspen Institute calls "inclusive capitalism",³³⁸ an economic system in which the benefits of growth are broadly shared, creating more opportunities for all people to improve their economic status.

This move is an answer to the implicit call made by Herman Daly when he states that "growth without investment in human capital is not just unsustainable, it's unethical".³³⁹ Genuine progress puts people at the centre. When people matter more than processes and profits, the economy starts making sense.

Appendix 3.1: Components, refinements and formulas of the GPI

In the most recent version of the Genuine Progress Indicator (GPI 2.0), it is measured by 26 indicators that can be divided into three main categories: economic, environmental and social. Some countries, regions or districts/communities may adjust the verbiage slightly to accommodate their specific scenario. For instance, one GPI template uses the phrase *Carbon Dioxide Emissions Damage*, whereas the state of Maryland uses *Cost of Climate Change* because it also accounts for other greenhouse gases (GHG) such as methane and nitrous oxide. Table 3.5 provide descriptions.

As with the development of any new metric, it follows the progression of thought, experimentation and scientific discovery. The same applies to the GPI. Very few techniques are perfect from the get-go. Therefore, based on previously published work as well as dialogue among researchers online and at GPI 2.0 workshops, there appears to be a strong *consensus* on the following:³⁴⁰

- redefining the GPI as a measure of current welfare and well-being, and not sustainability;
- restricting the GPI's domain to measuring the benefits and costs of economic activity;
- adopting consumer surplus, willingness to pay, and willingness to accept compensation as the primary basis for valuation;
- expressing the GPI mathematically as a social welfare function that includes both utilities and disutilities associated with the economic activity;
- adding components for public provision of goods and services and for non-market services from human and natural capital;
- broadening many existing adjustments (e.g., built capital services) to include additional sub-indicators that are made possible by improvements in methods and data sources;
- enhancing the GPI's multi-scale applicability by phasing out the practice of downscaling national data;
- abandoning outdated data sources – some of which are over three decades old;
- removing net foreign lending and borrowing, net capital formation and costs of ozone depletion from the accounts; and
- flipping adjustments for leisure and ecosystem services to measure current benefits and not cumulative losses.

Table 3.5: Components of the Genuine Progress Indicator

Indicator	Effect ±	Explanation of Meaning	Description of Method
Economic			Using Utah as an example
Personal Consumption Expenditures (PCE)	+	The bulk of GDP as well, consumption informs the baseline from which the rest of the indicators will be added or subtracted.	Start with US consumption data; use the Utah-US consumption ratio from Environmental Systems Research Institute (ESRI) data to obtain an estimate of consumption for Utah; deduct the percentage of tobacco, alcohol and food as harmful to health as per Lawn (2003) (deduction amounted to 3% lower PCE in 2007).
Income Inequality	+	Using the Gini index, published by the World Bank, and the Income Distribution Index (IDI), its relative change over time.	PCE (1/income distribution index - 1) where the income distribution index = Gini coefficient in current year / Gini coefficient for the reference year (in 1970 occurred the lowest Gini on record in the US Population Census).
Adjusted Personal Consumption	(PCE/IDI)*100	Formula = (Personal consumption/IDI) x 100. It forms the base number from which the remaining indicators are added or subtracted.	PCE/income distribution index.
Cost of Consumer Durables	-	Calculated as a cost to avoid double-counting the value provided by the durables.	Use ESRI consumption data for Utah. Calculate the annual service value of durables purchased in a given year and deduct spending on consumer durables (negative values observed, suggesting an acceleration of built-in obsolescence).

Indicator	Effect ±	Explanation of Meaning	Description of Method
Value of Consumer Durables	+	Household appliances, cars, etc., are not used up in one year and are considered a part of household capital. Their value is depreciated over a number of years.	See above.
Cost of Underemployment	–	Encompasses the chronically unemployed, discouraged workers, involuntary part-time workers and others with work-life restraints (lack of childcare or transportation).	Measures social cohesion erosion, in some cases captured by crime or divorce. Measured by earnings forgone by the underemployed = numbers who worked fewer hours involuntarily in the March CPS x hours they could not provide (i.e., hours of full-time, year-round (FTYR) worker – underemployed hours) x average hourly wage for Utah.
Net Capital Investment	±	Capital investment in foreign markets minus incoming investments from other countries. If lending (+); if borrowing (–).	Scaled down from US data; change in the value of the built capital stock over and above that needed to maintain a constant capital-labour ratio.
Environmental			
Cost of Water Pollution	–	Damage to water quality from things such as chemicals or nutrients, and the costs of erosion/sedimentation in waterways.	Water impairment data for four primary designated water use in Utah x per capita value of beneficial uses (based on US estimates).

Indicator	Effect ±	Explanation of Meaning	Description of Method
Cost of Air Pollution	–	Includes damage to vegetation, degradation of materials, cost of clean-up from soot or acid rain, resulting in reduced property values, wage differentials and aesthetics.	Emissions data on six major pollutants for Utah x damage cost estimates per unit ton of each type of pollutant produced, estimated for each county in the United States.
Cost of Noise Pollution	–	Noise from traffic and factories can cause hearing loss and sleep deprivation.	Average damage cost per person scaled down from US estimates for urban areas x urban population in Utah.
Loss of Wetlands	–	Valuates the services given up when wetlands are lost to development (i.e., buffering of weather, habitat, water purification).	Wetland acreage in Utah x wetland value per acre for the western United States (value based on various types and functions of wetlands).
Loss of farmland, soil quality or degradation	–	Due to urbanisation, soil erosion and compaction. This indicator is measured cumulatively to account for all years of production lost as it compromises a self-sufficient food supply.	Farmland acreage in Utah x the option value of preserving agricultural land for the future (option value = market value of conservation easements in Utah).
Loss of Primary Forest and damage from logging roads	–	Loss of biodiversity, soil quality, water purification, carbon sequestration, recreation, etc. Cumulative effect year over year.	Forest acreage in Utah x forest value per acre for the western United States (value based on various forest types and functions).

Indicator	Effect ±	Explanation of Meaning	Description of Method
CO2 Emissions	–	Increases in severe weather are causing billions in damage. In most cases, a value of US\$ 93/metric ton of CO2 emitted is used, based on a meta-analysis study by Richard Tol (2005) of 103 separate studies of costs of economic damages.	US cost per ton of ozone-depleting chemicals emitted x per capita emissions in Utah.
Cost of Ozone Depletion	–	Our protective layer in the atmosphere. Depletion can lead to increased cases of cancer, cataracts and plant decline. Weighed at US\$ 49,669/ton.	Carbon emissions from consumption in Utah (metric tons of carbon emitted per dollar of each category of consumption from ESRI) x global cost of carbon estimates (a median value per ton from a meta-study of the cost of carbon).
Depletion of Non-Renewables	–	These cannot be renewed in a lifetime. Depletion is measured against the cost of implementing and substituting with renewable resources.	Total consumption of each energy source (coal, natural gas, petroleum, electricity) x the cost per unit of energy consumed. This is based on the replacement cost approach, namely the assumption that the cost of replacing the particular resource with renewable energy is established at the point of consumption.
Social			
Value of Housework and Parenting	+	Child care, repairs and maintenance are valued equivalent to the amount a household would have to pay for the service.	See on the left.

Indicator	Effect ±	Explanation of Meaning	Description of Method
Cost of Family Changes	–	Social dysfunction very often presents itself early in family life. Care is taken to avoid the double-counting of goods and services duplicated due to split-parent households.	Cost of setting up new households after divorce + cost of excessive television viewing in families with children (more than 2 hours per day).
Cost of Crime	–	Medical expenses, property damages, psychological care and security measures to prevent crime are all included in this indicator.	Direct costs of crime + indirect costs (crime prevention) based on Utah data on the number of violent and property crimes; US cost per crime data is based on victim cost estimates in crime studies.
Cost of Household Pollution Abatement	–	Cost to residents to clean the air and water in their own household (e.g., air and water filters).	Household spending to reduce or dispose of pollution from automobile emissions, wastewater treatment, and solid waste disposal (using ESRI data for Utah).
Value of Volunteer Work	+	Valued as a contribution to social welfare. Neighbourhoods and communities can find an informal safety net through their peers and volunteer work.	Weight population by education level (assumption: more educated provide more volunteer labour) x hourly wage for volunteer labour based on wage equivalents reported by the Independent Sector.
Loss of Leisure Time	–	Compared to 1969 hours of leisure. Recognises that increased output of goods and services can lead to loss of valuable leisure time for family, chores or otherwise.	Measures overwork experienced by those employed FTYR. Based on ATUS, calculate the value of lost leisure time = the number of FTYR workers x lost leisure hours (= Benchmark 2,800 leisure hours in the US in 1969 – paid work hours of FTYR + unpaid care work hours of employed workers) x average hourly wage (weighted by 1.28 based on the assumption that fully employed workers value one leisure hour more than a paid –work hour).

Indicator	Effect ±	Explanation of Meaning	Description of Method
Value of Higher Education	+	Accounts for the contribution resulting from knowledge, productivity, civic engagement, savings, and health; a social spillover, set to \$16,000 per year.	See on the left.
Value of Highways and Streets	+	Annual value of services contributed from the use of streets & highways. Valued at 7.5% of the net stock of local, state and federal highways.	Annual service value of Utah roads = Utah-US mileage ratio x US stock value of roads x 75% of vehicle miles for non-commuting x 10% (= 2.5% depreciation + 7.5% interest rate).
Cost of Commuting	–	Money spent to pay for the transportation and time lost in transit as opposed to other more enjoyable activities.	Sum of cost of driving one's own vehicle (= miles driven to job x mileage reimbursement rate) + costs of time commuting (Utah hours from ATUS x average Utah hourly wage) + public transit fares.
Cost of Auto Accidents	–	Damage and loss as a result of traffic accidents. Increased traffic densities are a direct result of industrialisation and wealth accumulation.	Direct costs (property damage and health-care expenses) + indirect costs (value of lost life and lost wage associated with injury and death) based on data on total fatalities, injuries and crashes involving property damage.

Sources: Berik (2020); Berik & Gaddis (2011); Anielski & Soskolne (2001)³⁴¹

When analysing the components of GPI, it is clear how it indicates changes in people's *quality of life* (either positive or negative) due to economic activities, including both monetary and non-monetary. To make the picture even clearer: the components of GPI can also be outlined in the context of different *types of capital* since the building up of capital is a reflection of the value added in a community or a net increase/decrease in the *asset base*. This can be seen in Figure 3.10.

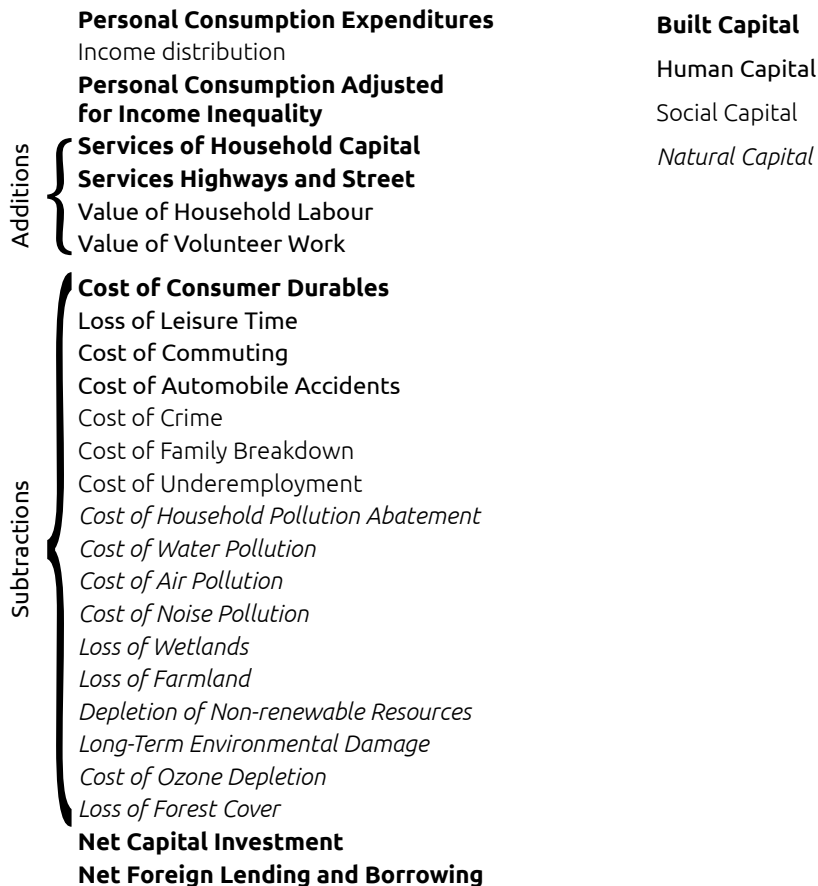


Figure 3.10: Components of GPI separated into built, human, social and natural capitals (Source: Kubiszewski 2018)³⁴²

Talberth and Weisdorf *define* the Genuine Progress Indicator as “A monetary measure of economic welfare for a given population in a given year that accounts for benefits and costs experienced by that population in association with investment, production, trade, and

Bagstad & Shammin (2012)

$$GPI = C_{adj} + G + W - D - S - E - N$$

C_{adj} = personal consumption adjusted for income inequality
 G = growth in capital and net change in international position
 W = non-monetary contributions to welfare
 D = defensive private expenditures
 S = depletion of social capital
 E = costs of environmental degradation
 N = depletion of natural capital

Brennan (2013)

$$GPI = s[Ck/D + Fk + Lt] + n\Delta Fk - ds[Ck + Fk + Lt] - oEk$$

s = services derived from ...
 ds = disservices flowing from ...
 Ck = final consumer goods/services capital
 D = income distribution
 Fk = durable fixed capital
 Lt = non-market labour or social-environmental activities
 n = net change or investment in ...
 oEk = depreciation of ecological capital

Lawn (2008)

$$GPI = C + SCD - ECD + PY - PO - LNCS$$

C = current consumption
 SCD = psychic services stock of consumer durables
 ECD = current expenditure on consumer durables
 PY = sum of additional psychic income items
 PO = sum of psychic outgo items
 $LNCS$ = cost of lost natural capital services

Hoffrén & Rättö (2008)

$$GPI = C_{adj} + P + G + W - D - E - N$$

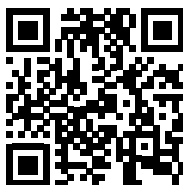
C_{adj} = consumer expenditure adjusted for income inequality
 P = non-defensive public expenditures
 G = growth in capital and net change in international position
 W = non-monetary contributions to welfare
 D = private defensive expenditure
 E = costs of environmental degradation
 N = depreciation of natural capital

Figure 3.11: Various mathematical representations of the GPI
(Sources: Talberth & Weisdorf 2017; Bagstad & Shammin 2012; Lawn 2008)³⁴⁴

Chapter 3

consumption of goods and services”.³⁴³ So, apart from the formula by Kubiszewski (2015), which is the one most often used, the formulas outlined in Figure 3.11 have also been applied by different researchers for calculating the GPI.

Scan the QR code to access a video on this chapter by the author.



Chapter 4

The circular economy

“The rich must live more simply so that the poor may simply live.”

Introduction

The lack of respect for boundaries, ecological and social, is creating the conditions for rampant inequality, social collapse/decay and environmental destruction. Currently, there are eight times more people in the world than two centuries ago, and, on average, we are 18 times more affluent.³⁴⁵ Yet the percentage of people *excluded* from mainstream economic activity is arguably the highest ever (and still growing); consumption is depleting natural resources (with increasing levels of waste); energy usage is accelerating, and we do more damage to the environment through plastic, greenhouse gasses and deforestation than ever before. The need to shift from the destructive path of this vicious cycle to an inclusive *virtuous cycle* is not only a wake-up call but a call for survival.

Social and natural capital must be augmented while generating sufficient human development. A virtuous cycle or circle is created in the economy when value, measured in terms of well-being, *feeds* the improvements in human and natural capital, upon which the creation of value depends. The circular economy, as it relates to human and ecological well-being, makes a U-turn away from the extractive model of growth, moving from degenerative economic processes to *regenerative* processes.

Not only does the circular model present an alternative discourse to the economy (and its progress), but its emphasis on resource recycling and systems for upcycling can be integrated into mainstream models.³⁴⁶ In contrast to the traditional linear economy, which has a *take-make-consume-dispose* model of production, the circular economy *includes* re-use, sharing, repair, and re-manufacturing to create a closed-loop system, minimising the use of resource inputs and the creation of waste and pollution.

As professor Kate Raworth puts it, the circular economy creates the potential for helping an economy to *thrive*, whether there is gross

domestic product (GDP) growth or not.³⁴⁷ It creates room for financial, political and social innovations that enable us to overcome the structural dependency on linear growth as we reshape the economic model so that it balances essential human needs within planetary boundaries. Respect is key, hence an inclusion and appreciation of shared values.

The *secret* is to employ the logic of the ecosystem (that which the economy should actually protect) and learn from it. The circular economy helps with a transition of thought: to *think like an ecosystem* and see new solutions. That means appreciating that all organisms, all elements of a system, are shaped by all others in a relational world characterised by three qualities: connectedness, continuous change, and co-creation.³⁴⁸

Shouldn't the same insight be applied to our *human ecology*? Truly understanding and valuing the interface between seemingly random components of a broader economic life cycle than traditionally thought of is vital for gaining deeper wisdom and insight into the proper function of the economy in the human ecosystem. As Oxford physiologist Denis Noble explains, *The Music of Life* emerges through the interaction of all the elements. That is what scientists call "the nature of nature".

Noble also adds that in the ecosystem, "there are no privileged components telling the rest what to do. ... There is rather a form of democracy [involving] every element at all levels".³⁴⁹ This is inclusive economics at its best. In the circular economy, products, equipment and infrastructure are kept in use for longer, thus improving the productivity of these resources. Waste materials and energy become *food* (input) for other processes, either as a component or as a recovered resource for another industrial process or as regenerative resources for nature (e.g., compost). This economic system is aimed at eliminating waste and the continual use of resources.

The circular economy attracts its fair share of debate. While many agree with the concept, its implementation could be costly for businesses in general. For instance, re-using old products, eliminating waste and improving recycling could add £ 640 bn to the global economy, but many businesses do not have an *end-of-life plan* for what they sell.³⁵⁰ This shows that the issues of debate regarding the circular economy are not just about whether to change the economic system or not but also about *how* to change it.

Part of this chapter's investigation into the circular economy is looking deeper into the how-aspect. Important, though, is the fact that

respecting boundaries unleash the hidden potential in any system/context (e.g., the lines of a tennis court are restrictive, but the players get more creative).

In principle, it is true that the reduction of resource inputs into the circular economic system and waste and emission leakage out of it reduces resource depletion and environmental pollution. However, by remaining assumptions, these actions are not sufficient in dealing with the involved systemic complexity and may even disregard potential trade-offs. For example, the social dimension of sustainability as it interrelates with economic trade-offs needs ever-closer investigation. This chapter aims to highlight the basic value-added of the circular economy to the economy and comprehend the complexities.

Brief background and theoretical underpinning

In the search for a new paradigm of development and growth that is feasible within the limits of the planet's carrying capacity, the circular economy stands out as a real alternative. This new development model, supported by the European Union (EU) and much of the international community, is, in fact, an *old* one moved upwards on a dialectical spiral so that it connects and resonates with the dynamics and realities of our times.³⁵¹

The 1970s saw rising energy prices and high unemployment. The circular economy concept initially grew out of the idea of substituting manpower for energy, first described 40 years ago in a report to the European Commission by Walter Stahel and Geneviève Reday-Mulvey.³⁵² The concept of 'circular economy' was then introduced by David Pearce and R. Kerry Turner in 1990 in their seminal work titled, *Economics of Natural Resources and the Environment*.³⁵³ They particularly demonstrated that the traditional open-ended economy was developed with no built-in tendency to recycle, resulting in the environment being treated as a waste reservoir.

Since the 1990s, circular economy concepts have been successfully applied on small scales in eco-industrial parks such as the Kalundborg Symbiosis in Denmark, and in companies, including Xerox (selling modular goods and services), Caterpillar (remanufacturing used diesel engines) and USM Modular Furniture. At the country and regional level, China was among the first to adopt a circular economy law in 2008, promoting the recovery of resources from waste.³⁵⁴ In that same year, the G8 environment ministers agreed on an action plan for circular economy principles. After that, the G7 Summit Leaders'

Declaration of 2015 underlined the need for *sustainable supply chains* that protect workers and the environment.

Then, in late 2015, the EU adopted an ambitious Circular Economy Package, including goals for food, water and plastics re-use. “The message is that while you are protecting the environment, you can boost your economic development and provide new growth and new jobs,” said the then European Commissioner for Environment, Janez Potočnik, in support of the Package.³⁵⁵

South Korea is another example of the past decade of a country, among many others, which has started research programmes to foster a circular economy by stimulating remanufacturing and re-use. Notably, although the interest has grown over the years, few countries have actually made *structural changes* to their economies as a result. Still, only hap-hazard circular economy implementations in certain sectors, companies and community development programmes have occurred in countries and regions around the world, which creates the vast potential for fully integrating circular economy models in economies.

The theoretical framework employed is based on the interrelationship between the economy and the environment often used by environmental economists. Mainly three economic theories focus on this interaction: The first, ‘natural resource economics’, is a transdisciplinary field of academic research within economics that aims to address the interdependence between human economies and natural ecosystems. Its focus is on how to operate an economy within the ecological constraints of the earth’s natural resources. It brings together and connects different disciplines within the natural and social sciences connected to broad areas of earth science, human economics and natural ecosystems.³⁵⁶

Traditionally, natural resource economics emphasised fisheries, forestry and mineral-extraction models. In recent years, however, other resources, notably air, water, the global climate, and, in general, *environmental resources*, have become ever more crucial to policy-making. Academic and policy interest has now moved beyond simply the optimal commercial exploitation of the standard trio of resources to encompass management for other objectives.

For example, natural resources more broadly have defined recreational as well as commercial values. They may also *contribute* to overall social welfare levels by their mere existence.³⁵⁷ Here, bringing the market into the picture, the cost-benefit analysis of welfare

economics is significant in attaining Pareto efficient outcomes (i.e., social welfare maximisation).

Figure 4.1 illustrates how different utility functions can be derived from the points on a contract curve. Each point on the production possibility frontier (curve AB) represents an efficient allocation of an economy's (and nature's) resources; that is, it is a *Pareto optimum*¹ in factor allocation, production, consumption and the interaction of production and consumption (supply and demand). Point C is on the social utility frontier, while point D lies inside the social utility frontier (indicating inefficiency). Although all the points on the grand social utility frontier are Pareto efficient, only one point identifies where social welfare is maximised. Such a point is called the “point of bliss”.³⁵⁸ This point is E, where the social utility frontier AB is tangent to the highest possible social indifference curve labelled SI.

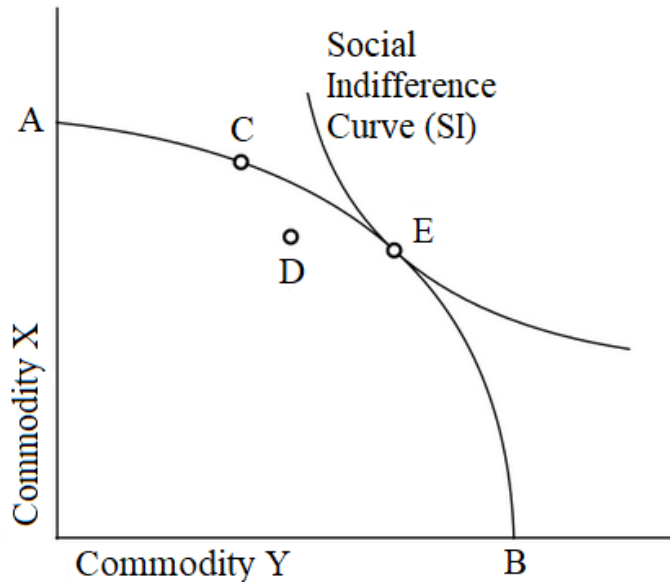


Figure 4.1: Social welfare maximisation (Source: Feldman 2008)³⁵⁹

The second theory studying the economy–environment interaction is an economic subfield called “environmental economics”. The National Bureau of Economic Research states that they:

¹ *Pareto optimality* is actually just one of five welfare economic theories. The others are: Kaldor–Hicks Compensation Criterion; Social Welfare Function of Bergson and Samuelsson; Scitovsky Criterion; and Sen’s Theory of Welfare.

undertake theoretical/empirical studies of the economic effects of national/local environmental policies around the world. ... Particular issues include the costs and benefits of alternative environmental policies to deal with air pollution, water quality, toxic substances, solid waste, and global warming.³⁶⁰

Also called “regenerative economic theory”, environmental economics was once distinct from resource economics. The initial focus and the main concern of researchers of natural resource economics was the optimal commercial exploitation of natural resource stocks. But resource managers and policy-makers gradually started to pay more attention to the broader importance of natural resources (e.g., the value of fish and trees beyond just their commercial exploitation).³⁶¹

It is now difficult to distinguish *environmental* and *natural resource* economics as separate fields since both have become so strongly associated with sustainability. Environmental economics takes as its starting point the lessons to be drawn from the laws of thermodynamics. As alluded to in the discussion earlier on the GPI, the first and second laws of thermodynamics are employed here in what is called a “material balance model”.³⁶²

The model portrays the economy as a material processing and product transformation system. *Useful* materials are drawn into the economic system (e.g., non-renewable resources such as fossil fuels can be extracted until their stocks are depleted and renewable resources such as fisheries and forests can be harvested) and then undergo a series of changes in their energy and entropy (i.e., usefulness) states. Eventually, after some time, the non-product output of the system can be partially recycled with the residual *usefulness* materials (wastes) returned to the environment from various points in the economic process.

The third theory, which is related to environmental economics, is ‘ecological economics’, but there are differences. Environmental economics applies the tools of economics to address environmental problems, many of which are related to market failures, circumstances wherein the *invisible hand* of economics is unreliable. It is viewed as more pragmatic in a price system, whereas ecological economics is more idealistic in its preference not to use money as a primary arbiter of decisions.

Environmental economics was a major influence on the theories of natural capitalism (concerned with resource conservation in production) and environmental finance (concerned with the value of

biodiversity in monetary terms to humans). Whereas environmental economists envision a world where natural services are deemed on par with physical capital, ecological economists emphasise *strong* sustainability and reject the proposition that human-made (*physical*) capital can substitute for natural capital.³⁶³ They rather emphasise the preservation of natural capital.

The more radical green economists, as part of the ecological economics school of thought, being strong proponents of a transition to renewable energy, argue that the economy is three-fifths of ecology. They suggest changes to the money supply so that political, economic and ecological *environmental limits* are all aligned and not subject to the arbitrage that normally occurs under neoliberal capitalism.

What is clear from Figure 4.2 is the *direct impact* of both the demand and supply sides of the economy on the environment. The latter is shown here as the three interlinked circles (E1, E2 and E3) and the all-encompassing boundary (E4). The production sector extracts energy sources (e.g., oil) and material resources (e.g., iron ore) from the environment.³⁶⁴ These are transformed into outputs; some are useful (goods and services supplied to customers) and some are waste products.

Recycling of resources, which is what is strongly accentuated by the three theories mentioned, is indicated first by Loop R1 (within the production sector) and by Loop R2 (within the consumption sector). In this framework, the environment has two roles: a supplier of resources and a sink, or receptor, for waste products. The three theories provide a *consensus* that the first role needs to be managed better/more responsibly in the way the economy operates/functions (i.e., an economy of care), and the second role needs to reduce drastically and be innovatively altered.

As shown in Figure 4.3, essential to the theoretical framework is *sustainable development*, which is an organising principle for meeting human development goals while concurrently sustaining the ability of natural systems to provide the natural resources and ecosystem services that the economy and society depend on. The desired result “is a state of society where living conditions and resources are used to continue to meet human needs without undermining the integrity and stability of the natural system”.³⁶⁵

The interface between social, economic and environmental factors enables *bearable* use of resources by society, *viable* employment of natural assets in economic production, and *equitable* use and distribution of economic benefits in society to increase overall

productivity. Inclusive development, specifically, provides a proper framework for furthering this.

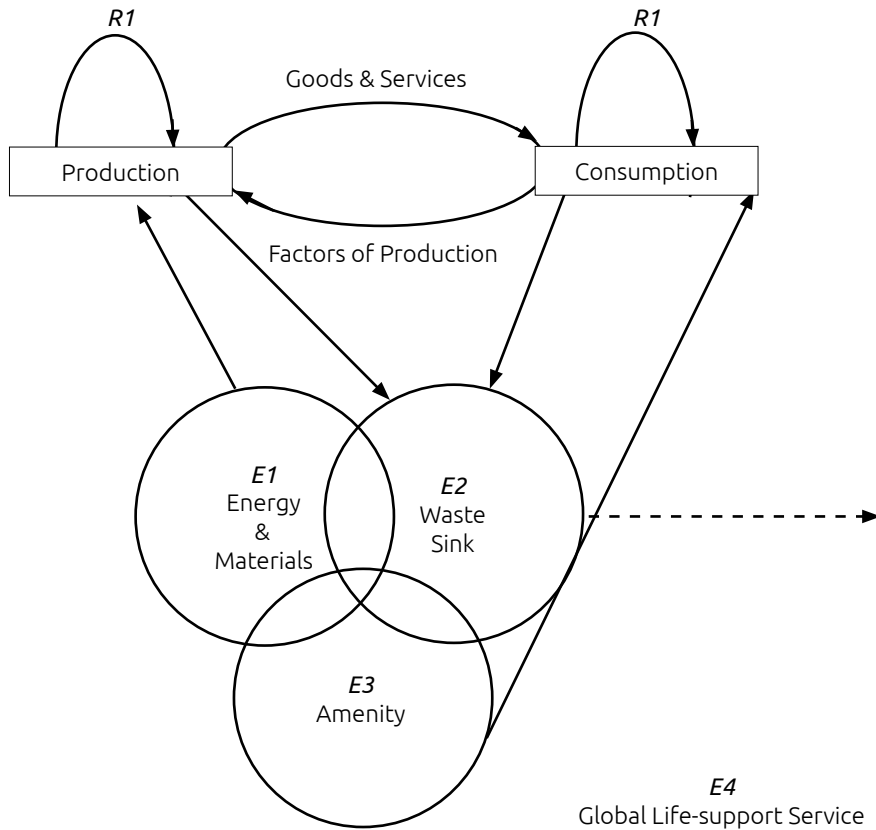


Figure 4.2: Interactions between the economy and the environment (Source: Hanley et al. 1997)³⁶⁶

Moreover, a key aspect to underline is the main theoretical framework that shapes policy in this regard. The source of the basic economic principles of environmental policy is to be found in the *Theory of Externalities*. Considering only their implications for the design of environmental policy, externalities, for instance, pollution, is characterised in the literature as a public *bad* that results from *waste discharges* associated with the production of private goods.³⁶⁷ The structure of policy measures for the protection of the environment is thus shaped not only by externalities created by the economic process but by its reversed detrimental effects on production (e.g., soil quality for agriculture or pollution exposure affecting worker productivity) and producing *disutility* for consumers.

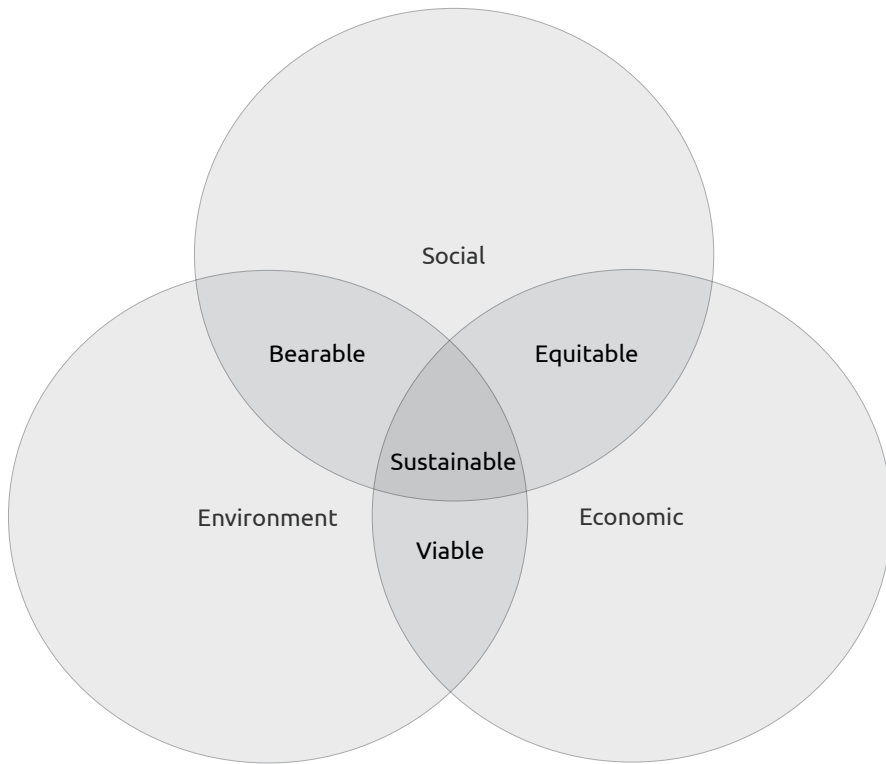


Figure 4.3: Balance within a sustainable economy: A foundation for inclusive development (Source: Turner 1988)³⁶⁸

By addressing these and other concerns relating to negative externalities affecting both the environment and society, more sustainable and inclusive economic models are gaining ground by the day. The circular economy model has arguably made the greatest contribution in this regard. Yet its full integration into the economy to bring about considerable adjustment to the linear economy is still a work in progress and *critical evaluation* on all sides.

Notably, though, optimism concerning the success in large-scale implementation of the circular economy concept (as part of inclusive development strategies) in the European Union and worldwide has shifted the emphasis towards taking advantage of opportunities rather than wasting resources by opposing the ineluctable changes.³⁶⁹ This shows deeper insight but needs to be entrenched through policy.

Lastly, it must be taken note that the circular economy *synthesises* several major schools of thought in the area of regenerative economics.

Each emphasises different practical applications to modern (inclusive) economic systems and industrial processes. They include:³⁷⁰

- *The functional service economy*. Also called the “performance economy” by Walter Stahel, it portrays the vision of an economy in loops (or circular economy) and its impact on job creation, economic competitiveness, waste prevention and resource savings. It advanced a closed-loop approach to production processes and insisted on the importance of selling services rather than products (i.e., a functional service economy). In sum, it pursues four main goals: product-life extension, long-life goods, reconditioning activities, and waste prevention.
- *Cradle-to-cradle*. Developed by Michael Braungart and Bill McDonough, it considers all material parts of industrial and commercial processes to be *nutrients*, of which there are two primary categories: technical and biological. This framework focuses on design for effectiveness in terms of products with positive impact and reducing the negative impacts of commerce by means of efficiency. Its design perceives the safe and productive processes of nature’s *biological metabolism* as a model for developing a *technical metabolism* flow of industrial materials.
- *Biomimicry*. An approach designed by Janine Benyus, biomimicry examines nature’s best ideas and then imitates these designs and processes to solve human problems, especially economic problems. It studies the potential of innovation being inspired by nature. An example is inspecting the leaf of a tree to invent a better solar cell. It comprises three core principles: nature as a model, nature as a measure, and nature as a mentor.
- *Industrial ecology*. Framed by Reid Lifset and Thomas Graedel, it focuses on connections between operators within the *industrial ecosystem*. Studying material and energy flows via industrial systems: this approach aims at creating closed-loop processes in which waste serves as an input to eliminate the notion of an undesirable by-product. It adopts a *systemic* point of view, designing production processes according to local ecological constraints whilst considering their global impact from the outset and attempting to sculpt them so that they perform as close to living systems as possible.
- *Natural capitalism*. Paul Hawken, Amory Lovins and L. Hunter Lovins studied the global economy in the context of how business and environmental interests overlap, recognising the interdependencies that exist between the production and use of human-made capital and flows of natural capital. This approach

prioritises the need to drastically *increase* the productivity of natural resources and reinvest in natural capital (i.e., stocks of natural assets including soil, air, water and all living things).

- *Blue economy*. Initiated by Gunter Pauli, this is an open-source movement bringing together concrete case studies of how new innovations can create multiple new jobs.
- *Regenerative design*. John T. Lyle developed ideas on regenerative design to be applied to all systems, beyond just agriculture. It uses *whole systems* thinking to create resilient and equitable systems that integrate the needs of society with the integrity of nature.

What is different about the circular economy?

While the circular economy should not be misinterpreted or confused with the general circular flow in the economy (as presented by macroeconomics), it is important to identify those aspects that distinguish it from what can be called the “normal economy” as we know it. Even by just considering the explanations of the circular economy above, it is clear that the meaning, context and purpose of the circular economy are different. But what does that actually mean? What are the qualitative (and quantitative) nuances involved? By answering these questions and by examining the nature of the circular economy, a number of differentiating factors (i.e., from the conventional economy) are identified.

A different concept of the economy

There are already widely accepted concepts like *sustainable development* or a *low-carbon economy* that seem right but not enough. Such concepts largely address the effects and not the causes. With the circular economy, we consider a broader approach that places human activity into a long-term historical perspective.

The concept of circular economy is relatively simple but one we seem unable to grasp. Clearly, our current linear *take-make-consume-dispose* economy is unsustainable. The only option is to move to a circular system where once a product is used: It is sent back to the start of the manufacturing process to be made into something else. Yet we struggle to fit it into our normal economic paradigm. Perhaps that's the issue. Intuitively we as humans know/sense that the circular approach is the right one, but our economic system does not really allow for it. Isn't the problem then the *system*?

As an alternative system of closing material loops to preserve products, parts and materials in the industrial system and extract their maximum utility, the circular economy implies a drastic *departure* from the traditional economy. This change is evidenced most by moving from a linear understanding of the economy to a circular understanding of the economy.

Let's fully unpack this aspect. In today's high-wastage linear economy, manufacturing takes raw materials from the environment and turns them into new products, which are then disposed into the environment after use. It is a linear process with a beginning and an *end*. Limited raw materials eventually run out. Waste accumulates, either incurring expenses related to disposal or else polluting (e.g., a 2012 World Bank Report estimates that municipal waste generation will double over the following 20 years in low-income countries³⁷¹).

In addition, manufacturing processes are often inefficient, leading to further waste of natural resources. A huge challenge is that the linear economy has conditioned us and shaped our economic behaviour in a way that *feeds the system* (to keep that model alive, i.e., a *new products economy*). Our *buy-cheap-and-throw-away* mentality is deeply ingrained and has its roots in the historically uneven distribution of wealth. UK households, for instance, throw away 26 000 tonnes of material annually and recycles less than half of it. Commercial and industrial waste adds 48 000 tonnes, of which less than 20% is recycled, and much less is re-used.³⁷²

A circular economy requires new models of product recovery and leasing rather than selling, and it requires collaboration. That is why it involves systemic change for the purpose of enabling economies and societies, in general, to become more sustainable.

Importantly, there are limits to linear consumption. Many companies have begun to notice that the linear system increases their *exposure* to risks, most notably higher resource prices and supply disruptions.³⁷³ Businesses are feeling the pressure between rising and less predictable prices in resource markets and high competition and stagnating demand for certain sectors. The turn of the millennium marked the point when real prices of natural resources started to climb upwards, essentially erasing a century's worth of real price declines.

Simultaneously, price volatility levels for metals, food and non-food agricultural output in the first decade of the twenty-first century were higher than in any single decade in the twentieth century.³⁷⁴ If no action is taken, high prices and volatility will likely be here to

stay if growth is robust, populations grow and urbanise, and resource extraction costs continue to rise.

Another limitation is that the linear model creates *imbalances* that weigh on economic growth as paradoxes inherent in the system prevent/disrupt maximising the benefits of energy and natural resource usage.³⁷⁵ Whilst major strides have been made in improving resource efficiency and exploring new forms of energy, and less thought has been given to systematically *designing out* material leakage and disposal. However, any system based on consumption rather than on the restorative use of non-renewable resources entails significant losses of value and negative effects all along the material chain.³⁷⁶

Businesses are thus in search of a *better hedge* and an industrial model that decouples revenues from material input. The current model cannot supply the planet's growing populace with essential services, and it naturally leads to strained profitability.

That is why we need to explore the potential of a circular economy as a model for an industrial organisation that will help *de-link* rising prosperity from growth in resource consumption. The circular economy presents a sustainable development strategy to address urgent problems relating to environmental degradation, resource scarcity and even social stability². Products are designed for durability, re-use and recyclability, while materials for new products come from old products.³⁷⁷ As much as possible, everything is re-used, remanufactured, recycled back into raw material, used as a source of energy, or as a last resort, disposed of.

The circular economy's *3R principles* are to Reduce, Re-use and Recycle materials for the benefit of society and the environment.³⁷⁸ This clearly illustrates the strong *linkages* between the environment and economics. The principles account for a circular system where all materials are recycled, and all energy is derived from renewables; activities support and rebuild the ecosystem and support human health and a healthy society, plus resources are used to generate value.

Central to the circular economy is the idea that open production systems, in which resources are extracted, used to make products and become waste after the product is consumed, should be replaced by systems that re-use resources, conserve energy and even upcycle products and systems.

2 For instance, lack of food – or at least healthy food – due to ecological collapse, could lead to societal conflict and instability. New productive opportunities created by recycling and upcycling processes could add to social stability.

In contrast to the linear extractive industrial model, a circular economy is *regenerative* by design to benefit business (profit-making), society (opportunities to all) and the environment (reducing waste and pollution). The circular economy's core ideas are the elimination of waste by design, respect for the social, economic and natural environment, and resource-conscious business conduct. It is a sustainable *closed-loop* economic system where all waste becomes *food* for another process, either as regenerative resources for nature or recovered resources or by-products for another production process.³⁷⁹

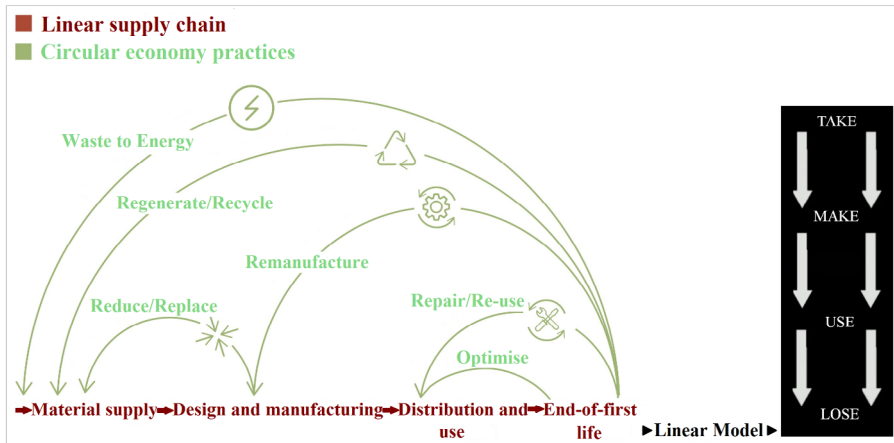


Figure 4.4: Contrast between the circular economy and the linear economy (Source: UNIDO 2018)³⁸⁰

More specifically, it involves three *secondary production* activities: re-use at the product level (e.g., repair or refurbishment); re-use at the component level (e.g., manufacturing); and re-use at the material level (e.g., recycling). This requires *eco-innovations*, defined by Prieto-Sandoval et al. as:

The production, application or exploitation of a good, service, production process, organisational structure, or management or business method that is novel to the firm or user and which results, throughout its life cycle, in a reduction of environmental risk, pollution and the negative impacts of resource use (including energy use) compared to relative alternatives.³⁸¹

GDP measures a financial flow over a period of time, and a circular economy preserves physical stocks. Concerns over resource security, ethics and safety, as well as greenhouse-gas reductions, are, however,

shifting our approach to seeing materials as assets to be preserved rather than continually consumed.³⁸² In addition, looking only at a subset of EU manufacturing sectors, this also presents an opportunity for an annual net material cost *savings*³ of up to 380 billion USD in a transition scenario and up to 630 billion USD in an advanced scenario.³⁸³

The circular economy is a relatively new way of creating value and, ultimately, prosperity. As shown in Figure 4.5, it works by extending product lifespan through *improved* design and servicing and relocating the waste from the end of the supply chain to the beginning, in effect, using resources more efficiently by using them repeatedly, not just once. It is a different concept that protects society from waste and enables it to form a model that is no longer considering resources as infinite. It is *take-make-use-re-use*.

Ellen MacArthur, a pioneer of the circular economy, defines it as a framework for an economy, an industrial system that is restorative and regenerative by design.³⁸⁴ It replaces the *end-of-life* concept with restoration, shifts towards the use of renewable energy, eliminates the use of toxic chemicals, which impair re-use, and aims for the elimination of waste by means of the superior design of materials, products, systems and within this, business models.³⁸⁵ Importantly, as pointed out by Furkan Sariatli, the circular economy has demonstrated to deliver tangible benefits and viability to address the economic, environmental and social challenges of the twenty-first century.³⁸⁶

According to Professor Kate Raworth, we currently face threats to four out of nine of our planetary boundaries. We are overshooting our ecological ceiling in terms of climate change, biodiversity loss, land conversion and nitrogen use.³⁸⁷ As further indicated by Figure 4.5 (on the right), we also face shortfalls in especially peace and justice, political voice, gender equality and health as part of society's social foundation.

Illustrating the circular economy in her *Doughnut Economy* model, she emphasises the need for circular economy principles to redirect the economy so that it respects boundaries and functions in the *ideal space* between the earth's ecological ceiling (carrying capacity) and our social foundation (human deprivation limits) where inclusive and sustainable economic development takes place.

3 Savings described here are net of the resources consumed during circular production processes, but they are gross of labour (in the case of some products, but not all) and energy costs (an additional source of savings in some cases).

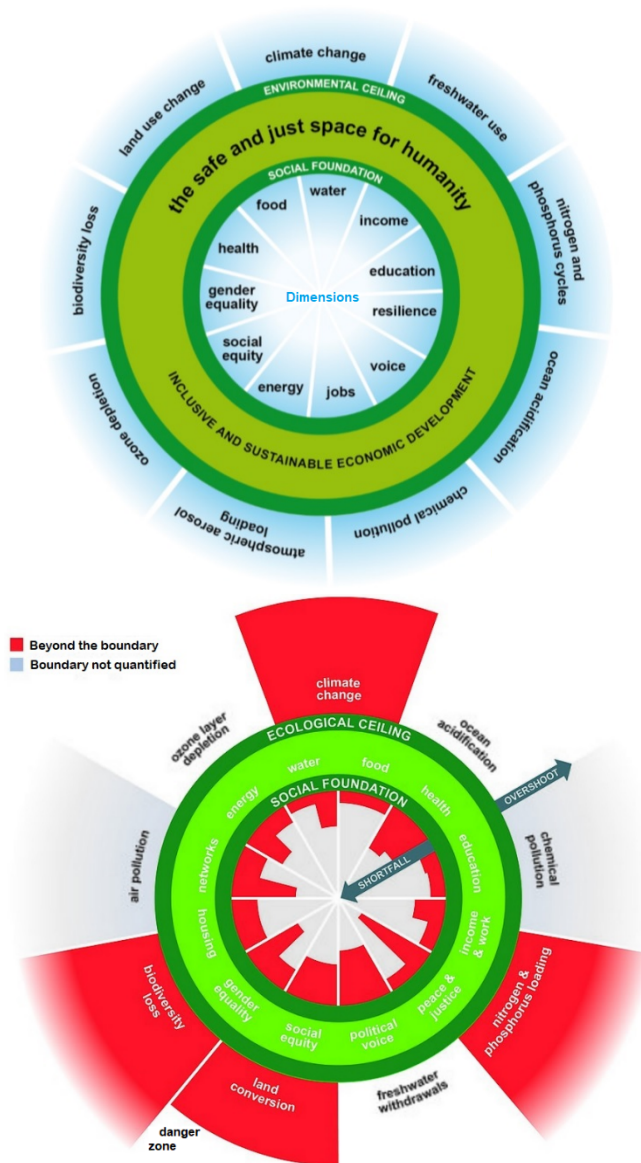


Figure 4.5: An environmentally safe and socially just space for humanity to thrive (Source: Raworth 2012)³⁸⁸

Central to the circular economy is its *regenerative* design, meaning degraded environments and natural resources that we are reliant on are rebuilt through our economic activities. A regenerative economy ensures that the earth's natural resources are extracted no faster than they can regenerate and be replenished (including re-use and

renewal). According to John Fullerton, “A regenerative economy seeks to balance: efficiency and resilience; collaboration and competition; diversity and coherence; and small, medium, and large organisations and needs.”³⁸⁹

A second characteristic of the circular economy highlighted by the Doughnut model is that it is *distributive* by design. In the distributive economy, where jobs or access to goods are the predominant criteria, economic growth is desirable as long as it creates employment. In this context, free-market efficiency will *no longer* be justifiable if it creates whole classes of people who are worse off.³⁹⁰

Economic success in the distributive design is determined by the extent to which *access* to the economy’s output is created. The circular economy, combining the regenerative and distributive elements, shapes an integrated vision for the economy. It values the interconnectedness of the social, environmental and economic dimensions of sustainable development. In the inclusive, safe and just space of the Doughnut Economy, it means balancing people’s access to life’s essentials with the planetary boundaries that life depends on.

As shown in Figure 4.6, this helps to re-frame economic problems and set new goals through *re-design* (regenerate) and *innovation* (restore). One such goal in building a more circular economy is to have greener, inclusive growth that, by itself, reduces wastage and optimises efficiency.

Apart from the environmental benefits, the extension of the product life cycle opens up distributive *opportunities* for income generation by more participants in the economic process as it stimulates innovation.³⁹¹ Additionally, the circular economy involves the implementation of renting models where manufacturers may rent the same product to several clients, thus increasing revenues per unit and reducing the need to produce more to increase revenues. Plus, significant net material cost savings can be accomplished as well as *upcycling* (continual improvement (upgrades and repairs) of existing goods).³⁹²

In this way, the circular economy gradually *decouples* growth from the consumption of finite resources while creating new participation opportunities. This is vital for empowering people to participate better in the distributive economy to counteract the centralisation of economic power that the linear economy is inclined to. Figure 4.7 depicts this contrast and transition.

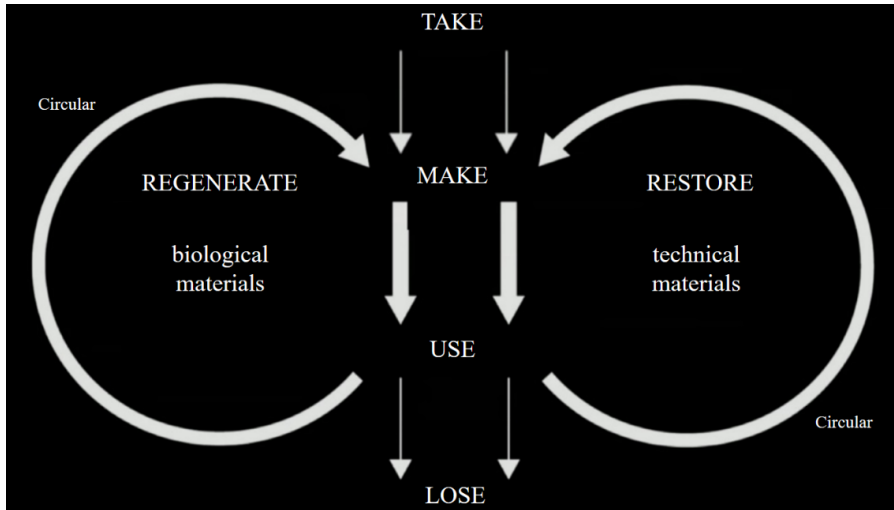


Figure 4.6: The circular economy: Regenerative by design (Source: Raworth 2017)³⁹³

Note: Biological materials can return safely to the natural world, while technical materials include metals, plastics and synthetic chemicals, which must keep cycling to add value.

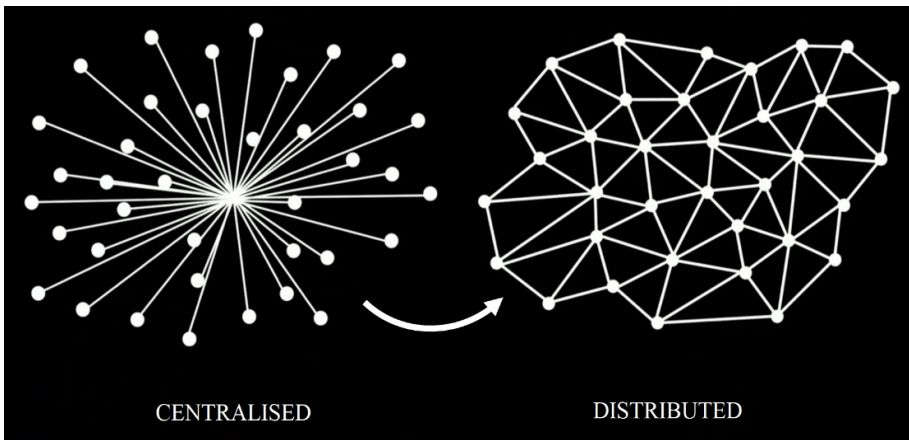


Figure 4.7: The circular economy: From centralised to distributed design (Source: Raworth 2017)³⁹⁴

Moreover, the circular economy is closely linked to the concept of *green growth*, which means that rather than continuing to *make, use and dispose of* unwanted side-effects in the economy (for example, at

least one-third of the world's plastic waste is neither collected nor managed, and most of it ends up in the oceans), such side-effects must become a thing of the past.³⁹⁵

Green growth ensures a given resource is kept circulating for as long as possible, thus benefiting the environment and requiring a *decoupling* of economic growth from resource use and adverse environmental impacts. This means designing products, production processes and services to optimise the use of resources, and when such resources reach the end of their lifespan, they are either re-used, repaired or re-manufactured for another use. With green growth, one should also be able to re-inject their composite materials elsewhere into the economy.

This *circularity principle* of green growth should especially be built into energy, transport and construction as key growth drivers and assist the economy in the transition towards sustainable energy systems.³⁹⁶ This would also bring about greener agriculture, preserving biodiversity and ecosystem services as adjusted business models are being applied. If green policies are well implemented, they can create opportunities for employment, especially in sectors such as renewable energy, green agriculture and sustainable forestry.

What makes the circular economy unique is a number of *design principles* inherent to the alternative industrial approach it is advancing. Mainly seven principles can be identified:³⁹⁷

- *Energy and resources must be treated with utmost care.* The circular economy has, in essence, the intention of designing out waste because it actually prefers not to even recognise waste (for instance, composting biodegradable waste or, if it's a transformed and non-biodegradable waste, re-using, remanufacturing and finally recycling it; and also cutting off the use of chemical substances to help regenerate natural systems). To achieve this, products are designed to last (using good quality materials) and are optimised for a cycle of disassembly to be re-used, making it easier to handle and transform or renew them. These tight product cycles *differentiate* the circular economy model from disposal and recycling, where large amounts of embedded energy and labour are lost. The ultimate objective is to preserve and enhance natural capital by controlling finite stocks and balancing renewable resource flows.
- *Constantly increase material productivity.* This means continually improving the run rate of required material intake in the circular economy. It offers substantial cumulative advantages as a

source of value creation, presenting arbitrage⁴ opportunities in comparison with linear product design and materials used in the following ways:

- *The value of the inner circle.* This refers to minimising comparative material usage vis-à-vis the linear production system. The tighter the circle, that is, the less a product has to be changed in re-use, refurbishment and remanufacturing, and the quicker it returns to use, the higher the potential savings on the shares of material, energy, labour and capital embedded in the product, and on the associated baggage of externalities (e.g., greenhouse gas emissions, water and toxicity).
- *The value of circling longer.* This means maximising the number of consecutive cycles (re-using, remanufacturing or recycling) and/or the time in each cycle.
- *The value of cascaded use.* Diversifying re-use across the value chain. Like, for instance, when cotton clothing is re-used first as second-hand apparel, then crosses to the furniture industry as fibre-fill in upholstery, and the fibre-fill is later re-used in stone wool insulation for construction before the cotton fibres are safely returned to the biosphere. In each case, there occurs a substituting for an inflow of virgin materials into the economy.
- *The value of pure circles.* This is when uncontaminated material streams increase collection and redistribution efficiency. Quality must be maintained at the same time, especially that of technical materials, which in turn extends product longevity and eventually raises material productivity.
- *Follow nature's cycles and designs.* The circular economy model differentiates between technical and biological cycles. Consumption occurs only in biological cycles, where biologically-based materials (e.g., food, cork or linen) are designed to feed back into the system via processes like anaerobic digestion and composting. These cycles regenerate living systems (e.g., soil or the oceans), which provide renewable resources for the economy. Technical cycles, by their turn, recover and restore products (e.g., washing machines), materials (e.g., limestone) and components (e.g., motherboards) through strategies like repair, remanufacture, re-use or recycling (or upgrading/upcycling). What the circular economy *aims* for, in

4 Arbitrage in this context would mean simultaneously using and re-using products in linear and circular economies.

this context, is to optimise resource yields by circulating products, components and the materials in use at the highest utility at all times in both technical and biological cycles. In nature, there is no waste. Therefore, natural ecosystems can show better pathways for industrialisation. This is part of *cradle-to-cradle* and *biomimicry*, implying that the production of materials, structures and systems emulate, or are modelled on, biological entities and processes. The circular economy approach thus incentivises durability, re-use and modular design so that products can be easily fixed, reassembled and upgraded in multiple ways.

- *Fully value renewable energies.* The energy needed to fuel the economic cycle in the circular economy should be renewable by nature, with the purpose of decreasing resource dependence and increasing systems' resilience. The focus here is to develop the systems' effectiveness by revealing and designing out negative externalities.
- *Ensure that economic participation evolves.* The circular economy industrial philosophy is strengthened by the emergence of users who are producers and consumers at the same time, the so-called "prosumers". The fusing of production and consumption made possible by new technologies will strengthen the circular economy by embedding prosumers in the reality of their own social and natural ecosystems. In this way, externalising waste becomes *impossible* when production is localised, and products are being designed (or co-designed) by the same people who will need to use them and recycle them.
- *Protect and improve relationships.* The human economy is embedded in both culture and the ecosphere, so it must ensure that it functions in a dynamic and cooperative relationship with them, respecting cultural needs and planetary limits. This allows vital *value-adding* exchanges to occur at all scales in reciprocal relationships (Ubuntu) to ensure that the circular economy's circularity characteristic continues. For example, larger businesses can broaden their relationship with smaller, local businesses and vendors. Individuals can seek collaboration and advice from neighbours on their projects, such as gardening, creative work or business endeavours. A strong network should be built between organisations and all individuals and role players that focus on being in the right relationship with nature and society.
- *Be innovative, adaptive and responsive.* To better harness the benefits (and requirements) of change, which is an ever-present and accelerating reality in our world: the qualities of innovation

and adaptability are critical for optimising the circular economy. Making sure there are more *winners* in the circular economy (greater inclusion), a culture of being most adaptive and responsive to a changing environment is key. Humans have a knack for solving problems in creative ways, so stimulate everyone's creative abilities, and then more innovative solutions can emerge.

To summarise why the circular economy represents a different concept of the economy, again, the contrast; in the linear economy, raw natural resources are taken, transformed into products and get disposed of; in a circular economy, *the gap is closed* between the production and the natural ecosystems' cycles, on which humans ultimately depend upon. While different concepts and approaches may exist regarding the circular economy, it does not take anything away from the fact that it is a fundamental building block to be *included* in creating a sustainable economy since it brings a necessary *balance* between the present and the future in terms of human needs and planetary means.

Circular economy's higher goal: Changing the processes of production, business and governance

The circular economy *repurposes* the economy so that it is more than mere production and consumption but becomes better integrated into the human ecosystem (as a complementary force). This enables humans to strive towards a higher goal (than what the consumption economy offers): A sustainable well-being economy that, through genuine progress, improves gradually more peoples' quality of life (building an inclusive economy).

At its essence, it takes the economy from degenerative processes to regenerative processes, steering away from Anthropocene (i.e., human-induced destruction/ruin of the environment). The key term here is *regenerative*, which describes circular economy processes that restore, renew or revitalise their own sources of energy and materials. It is a principled process that *re-aligns* production systems and business decision-making. Systems thinking is used to apply permaculture⁵ design principles and community development processes to merge human and ecological systems through *symbiosis design*.³⁹⁸

5 The word permaculture originally referred to *permanent agriculture* (as per Masanobu Fukuoka), but was expanded to stand also for *permanent culture*, as it was understood that social aspects were integral to a truly sustainable system.

Regenerative design can also refer to processes of designing systems such as restorative justice (e.g., mediation), re-wilding (e.g., conservation) and regenerative agriculture. Feedback loops are an integral part of regenerative systems as understood by processes used in restorative practice and community development (including city planning, enterprises and architecture).

Figure 4.8 illustrates this process, which is made possible on a larger scale using open-source socio-technical platforms and technological systems (as used in *smart cities*) and includes community and city development processes like gathering feedback, participatory governance, sortition⁶ and participatory budgeting.

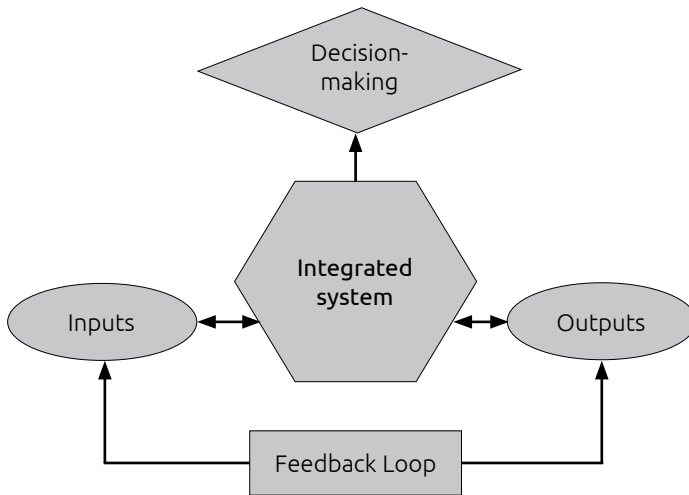


Figure 4.8: Feedback loop used in regenerative design (Source: Lyle 1996)³⁹⁹

Similar to sustainable development's highest aim of satisfying basic human needs today without compromising the possibility of future generations to satisfy theirs, the goal of *regenerative design* is to develop restorative systems that are dynamic and emergent and are beneficial for humans and other species.⁴⁰⁰ This regeneration process is participatory, frequentative and unique to the community and environment to which it is applied. It is a process that intends to revitalise communities, human and natural resources, and society as a whole.

⁶ Sortition in governance is the selection of political officials as a random sample from a larger pool of candidates.

Regenerative design is integral to the *New Economy Movement*, which is focused on restructuring the current economic system. It is based on the assumption that people and the planet should come *first* and that human well-being, not economic growth, should receive the highest priority. An insightful distinction, especially in the circular economy context, should be made between the words *green*, *sustainable* and *regenerative* in terms of how they influence design.

Green design is focused on reducing the harmful, damaging and negative impacts of the built environment (including any construction, business processes and production techniques) on both the environment and humans.⁴⁰¹ It is also aimed at the broad market transformation that accommodates green products, services and assessment tools in the economy.

While green design centres around specifically decreasing environmental impacts from human development, *sustainability* is viewed through an environmental, economic or social lens. By implication, sustainability can be incorporated into all three aspects of the *triple bottom line*: people, planet and profit. It promotes a biocentric view that places humans within a larger natural context and focuses on constraints and fundamental values as well as behavioural change. David Orr identified two approaches to sustainability:⁴⁰² Firstly, *technological sustainability* emphasises the anthropocentric view by focusing on making technological and engineering processes more efficient. Secondly, *ecological sustainability* emphasises the biocentric view and focuses on enabling and maintaining the essential and natural functions of ecosystems. In a *regenerative* design system, feedback loops allow for adaptability, dynamism and emergence to create and develop resilient and flourishing eco-economies (economies in balance with ecosystems).

A key distinction is its recognition and emphasis of the “co-evolutionary, partnered relationship between human and natural systems” and thus the importance of project/production location and place.⁴⁰³ *Regenerative design* goes beyond the traditional weighing and measuring of various environmental, social and economic impacts of sustainable design and instead focuses on mapping relationships. It includes three core aspects: understanding place and its unique patterns, designing for harmony within place and co-evolution (humans’ and nature’s co-adjustments).

This coincides with regenerative economics, which works to regenerate capital assets, i.e., an asset that provides goods and/or services that are required for, or contribute to, human well-being. One

can either *regenerate* one's capital assets or consume them until the point where the asset cannot produce a viable stream of goods and/or services.

Regenerative economics takes into account and gives hard economic value to the principal/original capital assets, the earth and the sun.⁴⁰⁴ The economy cannot affect the sun, but it can value access to the sun in such areas where access can be influenced/optimised, i.e., the goods (solar energy) it supplies. It recognises the earth as the original capital asset and places the true value on the human support system, the environment. Not properly valuing this in the linear economy has resulted in *uneconomic growth*, which is regarded as the opposite of regenerative economics. As part of the circular economy, the latter represents a higher goal.

There is a window of opportunity for especially emerging economies to avoid replicating the resource-intensive production models of developed countries and *leapfrog* to a more sustainable development model. Therefore, to reach higher levels of resource productivity, it is necessary that efficient technology be deployed with complementary systemic and structural changes in the industry.⁴⁰⁵

For heavy industry, part of the solution is to use the *waste* stream from one factory as a resource for other companies or consumers. This would result in a local system based on multiple closed loops. It is also called the "waste equals food principle".⁴⁰⁶ For this to work, physical co-location of factories is required so that linking infrastructure becomes practical. For example, using waste heat for district heating systems is most cost-effective where the heat source is close to the customer, thus minimising the cost of pipes and insulation as well as heat loss.

Proximity can also generate significant positive effects on the rates of formation of new firms and firms' productivity, profitability, innovation and growth.⁴⁰⁷ Further examples include eco-industrial parks, integrated iron and steel works, and green industrialisation, incorporating global supply chains and a network of industrial zones.⁴⁰⁸ These parks could also demonstrate a *shift* away from fossil fuels and towards sustainably sourced inputs.

From a Cradle-to-cradle production perspective, nanotechnology and biotechnology have the potential to deliver materials with increased strength and reduced weight, among other useful properties. These materials would *bio-degrade* at the end of the product's life or could be easily taken apart so that they could be re-used.

One emerging development is *distributed manufacturing*, which has advantages over traditional manufacturing, such as the ability to customise products.⁴⁰⁹ Innovative solutions to wasteful, centralised manufacturing are in need of exploration (e.g., similar to how, in Taiwan, waste from oyster farming, such as old buoys, can be sold as a raw material for building materials).

Through distributed manufacturing, personalised products are manufactured by a network of *micro-factories* on a local scale. Platforms such as Xometry and 3D Hub are networks of fabrication facilities with 3D printers, CNC machining and other manufacturing tools where individuals or businesses can submit their own design online, which is sent to a nearby manufacturing facility in the platform's network to be produced.⁴¹⁰ Makerspaces, hackerspaces and fabrication or *FabLabs* are further examples of distributed manufacturing. These community spaces house fabrication and design tools, such as 3D printers and prototyping software. With a membership, community members can learn to use the tools and make personalised products for themselves or sell them in their local areas.

Although proximity to facilities and financial constraints still limit the ability of *just anyone* to participate, distributed manufacturing significantly broadens the potential for participation in design and production.⁴¹¹ The most promising advantage may be its ability to support the circular economy through local production, increasing product lifespan and reducing waste.

The shift to a circular economy requires *innovative* business models that either replace current ones or seize new opportunities. Companies with significant market share and capabilities along several vertical steps of the linear value chain could play a major role in circular economy innovation, driving circularity into the mainstream by *leveraging* their scale and vertical integration.⁴¹² Brand and volume entrepreneurial leaders can also play a vital role by bringing forward many new models, materials and products.

Profitable circular economy business models and initiatives are inspiring other players as they are copied and expanded geographically. A good example is Coca-Cola which manufactures 3 million tonnes of plastic packaging a year and is now making use of Sweden as the first market where all its bottles will be produced from 100% recyclable materials. Waste innovations are *driving* the change. IKEA also unveiled a plan in 2018 to become a circular business by 2030, wanting to eliminate all waste and working towards using only renewable and salvageable materials across its entire range.⁴¹³ Scores

of other household names such as Adidas, H&M, Nike and Timberland are giving preference to re-using and recycling over raw materials and extractive production methods and processes.

Becoming an environmentally friendly business has even become a strong *differentiating factor* in terms of companies' entire proposition, which can drive inclusive growth. Many businesses⁷ are surprised to discover new value being added through the benefits of the circular economy, which include the creation of new profit opportunities, reduced costs due to lower virgin-material requirements, and stronger relationships with customers.⁴¹⁴

Increasingly significant is the fact that the new millennium consumers give even more preference to such businesses. Making the business case clear as a new era of sustainability dawns, a 2018 study from Nielsen found that 81% of global customers *feel strongly* about companies' need to implement initiatives that improve the environment.⁴¹⁵ They want an economy of care. Chris Norman at GOOD Agency, which advises brands on sustainable strategies, confirmed this by stating:

Once a business has established or switched to a circular process, it has the opportunity to leverage this point of difference to align with the values of the rapidly growing segment of society that are conscientious consumers.⁴¹⁶

Figure 4.9 illustrates how such a process can *flow* in terms of consumption, production and creating well-being by minimising systemic leakage and negative externalities while at the same time creating new consumer and stakeholder value.

In the context of natural capitalism, a move to a *service-and-flow* business model, providing value as a continuous flow of services rather than the traditional sale-of-goods model, aligns the interests of suppliers and customers in a way that rewards resource productivity. Employing a *circular supply chain* enables processes such as product design, waste management and procurement to become more efficient and productive.

Three ways can be identified in which businesses can start: recycle more and better, rent goods, and lengthen the longevity of products.⁴¹⁷

7 As per the WEF, the ten leading companies in the circular economy space are Winnow, DyeCoo, Close the Loop, Enerkem, Schneider Electric, Cambrian Innovation, Lehigh Technologies, HYL A Mobile, TriCiclos and Miniwiz.

Renault is an example of a company following this process and gaining the benefit. It recovers 50% of car parts for remanufacturing and saves through renting. Annually, it now refurbishes over 30 000 engines, 20 000 gearboxes, and 16 000 fuel injection systems. As a result, parts are between 30% and 50% *more affordable* for customers. It saves 80% more energy, chemical products, water and waste, which would otherwise result from producing new parts.

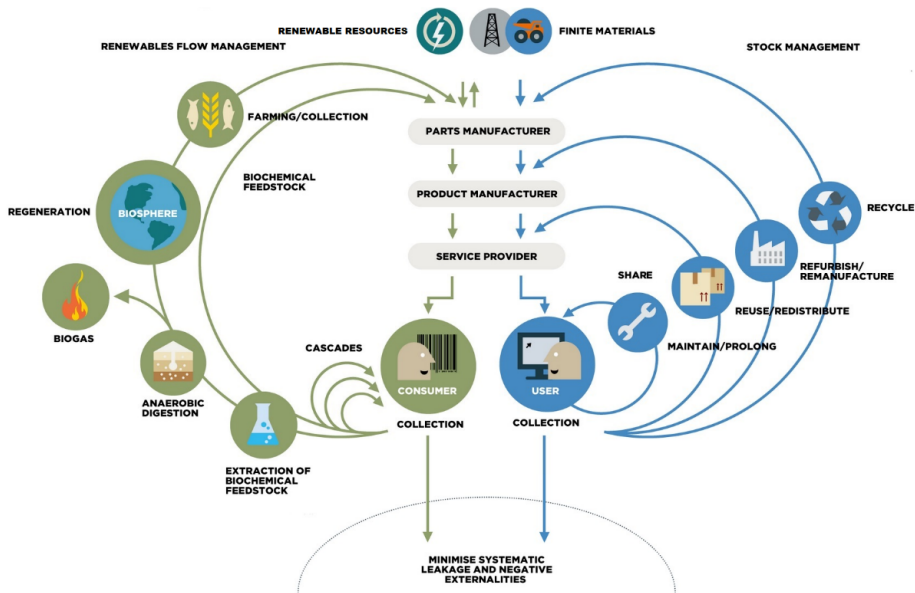


Figure 4.9: Circular economic system diagram: Consumption, production and well-being (Sources: Ellen MacArthur Foundation 2019; McDonough & Braungart 2002)⁴¹⁸

Despite the extraordinary complexity of global supply chains, research by the World Economic Forum (WEF), in partnership with the Ellen MacArthur Foundation and McKinsey, has indicated that new circular business models have a realistic potential of generating 1 trillion USD in annual materials cost savings by 2025 and creating 100 000 new jobs by then.⁴¹⁹ Although the global pandemic will cause this date to be moved forward to recalculate for the economic recovery, the potential remains intact. Businesses could certainly lower costs and create new profit streams.

Studies have shown that the circular economy supports improvements in especially medium-lived products (e.g., reducing the cost of manufacturing mobile phones by 50% per device) and

fast-moving consumer goods (e.g., household cleaning products).⁴²⁰ In terms of the latter, high-end washing machines could be leased instead of sold, saving customers roughly a third per wash, and manufacturers could earn about a third more in profits. Other sectors that also hold significant *potential*, given successful circular business models in those areas, include the food, plastics, steel, aluminium and cement industries.

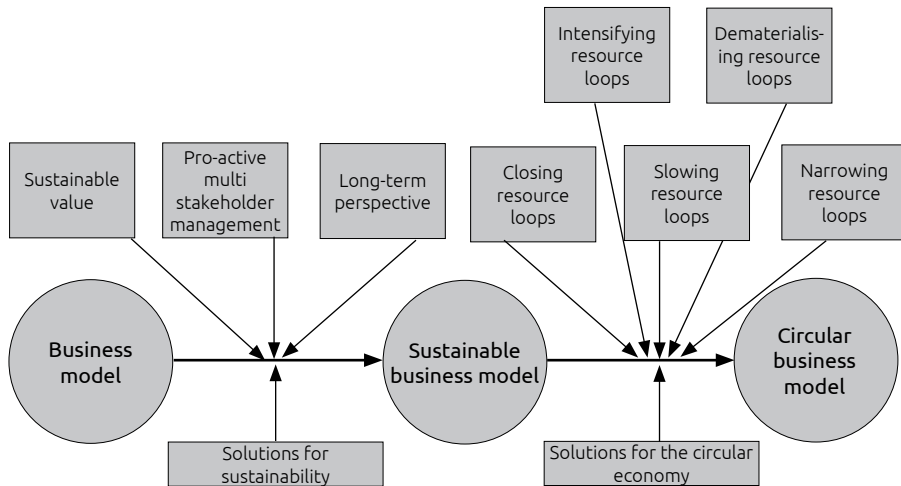


Figure 4.10: Transitioning from the traditional business model to the circular business model (Source: Geissdoerfer et al. 2018)⁴²¹

Figure 4.11 illustrates how, in essence, circular business models are closing, narrowing, slowing, intensifying, and dematerialising loops that minimise the resource inputs and the waste and emission leakage out of the organisational system. This involves recycling measures (closing), improvements in efficiency (narrowing), use of phase extensions to extend a product's value and life span (slowing), a more intense use phase to encourage sufficiency (intensifying) and substituting products via service and software solutions (dematerialising).⁴²² These *higher goal* business strategies can be accomplished through the *purposeful design* of material recovery processes and related circular supply chains. As shown in Figure 4.11, the five approaches to resource loops can also be regarded as generic strategies or archetypes of circular business model innovation.

Circular economy business models fall mainly into two groups: those that foster re-use and extend service life through repair,

remanufacture, upgrades and retrofits,⁸ and those that turn old goods into *as-new* resources by recycling the materials. Notably, people of all ages and skills are central to this model.

A higher purpose takes effect as ownership gives way to stewardship, and consumers become users and creators.⁴²³ The remanufacturing and repair of old goods, buildings, and infrastructure *create* skilled jobs in local workshops, while new workers can benefit from the experiences of older workers from the past. The business case for the circular economy is even stronger when businesses adopt circular economy principles at the *design level*.

By designing products with resource recovery in mind, they can protect themselves from price changes in the raw-materials market by creating a more reliable source of raw materials.⁴²⁴ They can also maintain longer-lasting relationships – in line with Ubuntu – with customers by ensuring contact throughout a product’s life cycle.

Measuring progress differently – and for a different purpose

Monitoring circular economy progress and assessing whether it is achieving its targets are part of measuring economic progress differently than standard measures such as GDP and GDP per capita. Importantly, this is done not simply to seek alternative ways of measuring economic welfare and well-being but for a different purpose: that of creating a *new economic system* that is inclusive and truly sustainable from both a human and biocentric perspective.

A number of different methods and frameworks have been developed in many parts of the world for measuring and monitoring a circular economy. Some are considered here, providing insight into dealing with related economic complexities. It must be noted that the assessment of progress towards a circular economy is a matter of healthy ongoing debate.

European Union Circular Economy Monitoring Framework

Europe’s transition to a circular economy is part of its efforts to meet the objectives of the 2030 Agenda for Sustainable Development to attain the Sustainable Development Goals (SDGs). In fact, the European Union embraced the notion of a circular economy as its *key strategy* for more sustainable use of natural resources.

8 Retrofits or retrofitting is the addition of new technology or features to older systems (e.g., a power plant retrofit).

The European Parliament called upon the European Commission to develop indicators on resource efficiency to track progress towards the circular economy. In 2015, the Commission adopted a strengthened circular economy package that aims to maintain the value of products, materials and resources in the economy for as long as possible and minimise the generation of waste as a critical contribution to the EU's efforts to develop a sustainable, low-carbon, competitive and resource-efficient economy.⁴²⁵ There, the transition from a *take-make-consume-dispose* economy to a *recycle-and-re-use* economy became the central priority.

In 2018, and as part of ongoing efforts to transform the EU's economy towards more sustainability, the Commission adopted a range of circular economy-related policy measures on, for instance, plastics and improved legislation on waste or critical raw materials.⁴²⁶ In addition, EU-wide monitoring efforts have been established.

In its circular economy action plan, the following *definition* of a circular economy is used: "an economy where the value of products, materials and resources is maintained in the economy for as long as possible, and the generation of waste minimised".⁴²⁷ Monitoring the key trends and patterns is vital for understanding how the various elements of the circular economy are developing over time, to help identify success factors in member countries and to assess whether adequate action has been taken.⁴²⁸ For these states, the results of monitoring form the basis for setting new priorities toward the long-term objective of a circular economy.

The European Commission identified ten indicators for 28 countries (EU28) to assess the effectiveness of circular economy measures on larger scales. These indicators were selected in a way that captures the main elements of a circular economy. The list is constructed to be a concise and focused *monitoring framework*.⁴²⁹

It makes use of available data while also earmarking areas where new indicators are in the process of being developed, especially for green public procurement and food waste. Almost half of the indicators come from *Eurostat*; others are produced by the Joint Research Centre and the Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs. The patents-indicator comes from the European Patent Office. To ensure consistent reporting, Eurostat frequently updates the monitoring framework on its website.⁴³⁰

The European Commission continues to *enhance* the indicators that need further developments, in particular regarding their methodologies and/or data collections. Grouped into four categories,

Table 4.1 outlines these ten indicators and their relevance while providing some examples. Note that they are part of the Resource Efficiency Scoreboard and Raw Materials Scoreboard that the European Commission developed.

Table 4.1: Circular economy indicators included in the EU28 monitoring framework

No	Indicator	Relevance	EU levers (examples)
Production and consumption			
1.	EU self-sufficiency for raw materials	The circular economy should help address the supply risks for raw materials produced within the EU, especially critical raw materials.	Raw Materials Initiative; Resource Efficiency Roadmap
2.	Green public procurement*	Public procurement (that includes environmental requirements) accounts for a large share of consumption and can drive the circular economy.	Public Procurement Strategy; EU support schemes and voluntary criteria for green public procurement
3.	Waste generation	In a circular economy, waste generation is minimised. Waste is municipal waste per capita and total waste per GDP unit in relation to domestic material consumption.	Waste Framework Directive; directives on specific waste streams; Strategy for Plastic
4.	Food waste*	This is the amount of food waste generated. Discarding food has a negative environmental, climate and economic (including poverty) impact.	General Food Law Regulation; Waste Framework Directive; various initiatives (e.g., Platform on Food Losses and Food Waste)
Waste management			
5.	Overall recycling rates	This is the recycling rate of municipal waste and all waste, except major mineral waste. Increasing recycling is part of the transition to a circular economy.	Waste Framework Directive

Chapter 4

No	Indicator	Relevance	EU levers (examples)
6.	Recycling rates for specific waste streams	This reflects the progress in recycling key waste streams, which include: the recycling rates of packaging waste, plastic packaging, wood packaging, waste electrical and electronic equipment, recycled biowaste per capita, and the recovery rate of construction and demolition waste.	Waste Framework Directive; Landfill Directive; directives on the specific waste streams mentioned on the left
Secondary raw materials			
7.	Contribution of recycled materials to raw materials demand	This is secondary raw materials' share of overall materials demand for specific materials and the economy as a whole. In a circular economy, secondary raw materials are commonly used to make new products.	Waste Framework Directive; Eco-design Directive; EU Ecolabel; REACH; initiative on the interface between chemicals, products and waste policies; Strategy for Plastics; quality standards for secondary raw materials
8.	Trade in recyclable raw materials	This involves imports and exports of selected recyclable raw materials. Trade in recyclables reflects the importance of the internal market and global participation in the circular economy.	Internal Market policy; Waste Shipment Regulation; Trade policy
Competitiveness and innovation			
9.	Private investments, jobs and gross value added	This reflects the contribution of the circular economy (in different sectors) to the creation of employment opportunities and value added to the economy in terms of growth (preferably inclusive growth).	Investment Plan for Europe; Structural and Investment Funds; InnovFin; Circular Economy Finance Support Platform; Sustainable Finance Strategy; Green Employment Initiative; New Skills Agenda for Europe; Internal Market policy

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No	Indicator	Relevance	EU levers (examples)
10.	Patents	This is the number of patents related to waste management and recycling. It involves innovative technologies related to the circular economy that enhance the EU's global competitiveness.	Horizon 2020; Agenda 2030

(Sources: European Commission 2018b; Eurostat 2021a)⁴³¹

Note: *Indicators that are under development.

Monitoring progress (and the transition) towards a circular economy is a complex task as it is not limited to certain materials or sectors. It is a *systemic change* that affects the entire economy and involves all products and services. These EU28 indicators, therefore, primarily capture trends in preserving the economic value of products, materials and resources, as well as trends in waste generation.⁴³²

Just as there is no one universally recognised indicator of *circularity*, robust off-the-shelf indicators to explain the most relevant trends are in short supply. With a single measure or score, it would be virtually impossible to adequately capture the complexity and the many dimensions of the transition to a circular economy. For this reason, a set of relevant indicators is used in this monitoring framework.

Then, complementary to the ten-indicator approach that the EU use is a monitoring framework for *economy-wide* material loop closing that has been successfully applied to the 28 European countries as part of their circular economy assessment.⁴³³ This comprehensive biophysical assessment of a circular economy utilises and systematically links official statistics on resource extraction, use and waste flows in a mass-balanced approach. It builds on the widely applied framework of economy-wide material flow accounting and expands it by integrating waste flows, recycling and downcycled materials.

In short, it comprises a comprehensive *set of indicators* that measure the scale and circularity of total material and waste flows and their socio-economic and ecological loop closing⁹. Figure 4.11 illustrates the sequencing and interaction between these Indicators.

9 These are the two types of loop closing in circular economy strategies: *socio-economic* loop closing involves recycling waste materials as secondary material inputs; and *ecological* loop closing occurs through using renewable biomass.

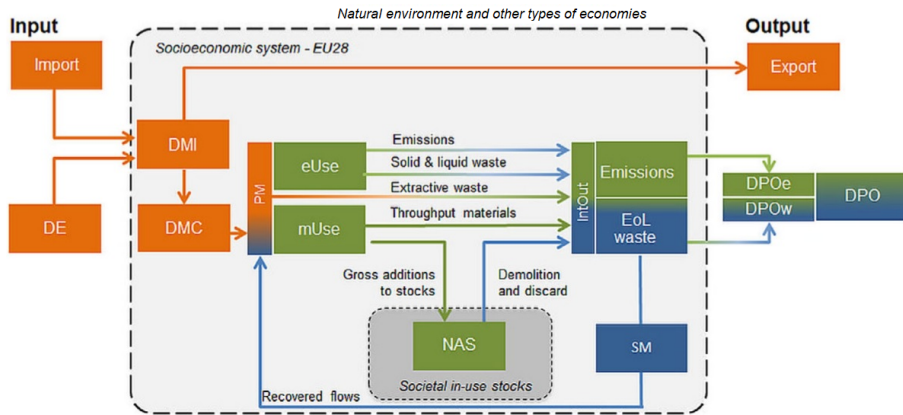


Figure 4.11: Framework and throughput indicators for an economy-wide circular economy assessment (Source: Mayer et al. 2018)⁴³⁴

Note: The abbreviations are as follows: DE = domestic extraction; DMI = direct material inputs; DMC = domestic material consumption; PM = processed material; eUse = energetic use; NAS = net additions to stock; IntOut = interim outputs; EoL waste = end-of-life waste; SM = secondary materials; DPOe = domestic processed output of emissions; DPOw = domestic processed output of wastes; DPO = domestic processed output.

Getting an idea of the process of circular economy assessment in Figure 4.11: different colours indicate the various focus areas: orange = economy-wide material flows; blue = waste and emissions; green = mass-balance modelling. A shift from green to blue colour indicates a combination of statistical data and modelling based primarily on Eurostat data. What this framework, in essence, demonstrates is that, to achieve a more *sustainable economy*, it is insufficient to only increase recycling and focus on (partial) improvements in the degree of circularity, but it is essential to also achieve absolute reductions in resource extraction and consumption, that is, to downsize the socio-economic metabolism.⁴³⁵

This has implications for the assessment of circular economy strategies and monitoring tools needed to measure both the degree of loop closing and the overall in- and -outflows of societies' *metabolism*.⁴³⁶ 2014 is a standout year in which the framework in Figure 4.12 was extensively applied to EU28 monitoring efforts for a circular economy.

A number of key findings were made: Firstly, 7.4 gigatonnes (Gt) of materials were processed in the EU, and only 0.71 Gt of them were

secondary materials. The derived input socio-economic cycling rate of materials was thus 9.6%. Secondly, of the 4.8 Gt of interim output flows, 14.8% were recycled or downcycled.⁴³⁷ Improvements needed in the following areas were identified: improved reporting of wastes, explicit modelling of societal in-use stocks, the introduction of criteria for ecological cycling, and disaggregated mass-based indicators to evaluate environmental impacts of different materials and circularity initiatives.

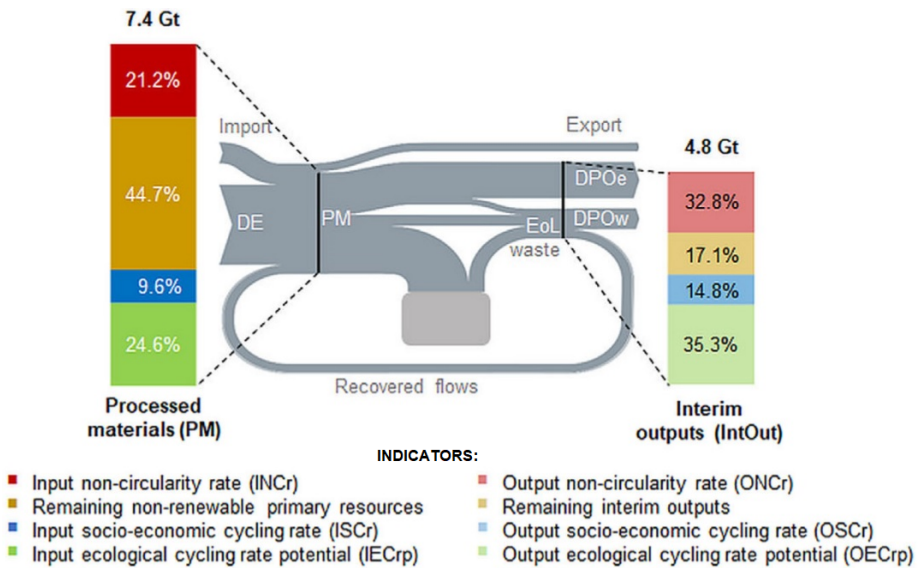


Figure 4.12: Input- and output-side circular economy indicators (Source: Mayer et al. 2018)⁴³⁸

Figure 4.12 illustrates the findings from evaluating the throughput indicators for the economy-wide material loop closing framework. The left bar next to the material flows diagram depicts processed materials, and the right bar shows interim outputs. The percentages denote the *share* in relation to processed materials (left bar) and interim outputs (right bar).

Moreover, in the broader context, the majority of circular economy research has focused on individual products or specific substances within regions or nations or on a global scale. For some substances, mainly metals, the knowledge base on anthropogenic cycles has indeed improved in recent years.⁴³⁹ A growing body of research has also focused on the company or industry level.⁴⁴⁰ However, comprehensive macro-scale assessments of national-level

circularity, including derived policy indicators, should be done more, as in the case of this mass-based circular economy assessment.

Consistently *integrating* data from different statistical sources emphasises the need to improve statistical reporting and explicitly address uncertainties in reported quantities. This assessment focuses on material flows and circularity within the EU28; however, as trade with waste and secondary resources is rapidly increasing, it is important to also *capture* the global cross-country dimension of circularity in national assessments.⁴⁴¹ Although consumption-based indicators capture the global dimension of domestic final consumption, exports and imports of waste and secondary materials must be better recorded and integrated into the assessment framework and derived indicators.

Measurement scopes according to Life Cycle Assessment (LCA)

As part of Life Cycle Thinking,¹⁰ LCA is a methodology for assessing environmental *impacts* associated with all the stages of the life cycle of a commercial product, process or service. For example, in the case of a manufactured product, environmental impacts are assessed from raw material extraction and processing, via the product's manufacture, distribution and use, to the recycling or final disposal of the materials it consists of.⁴⁴²

An LCA study involves a thorough inventory of the materials and energy that are needed across the industry value chain of the product, process or service and calculates the corresponding emissions to the environment. Several reviews on the circular economy show the necessity of a systemic view of the life cycle of resources.⁴⁴³ As such, a circular economy acts on several *steps* of the production and consumption chain so that indicators may use an LCA approach.

For the sake of simplicity in LCA cause-and-effect modelling, we consider that the technological cycles of materials, products and services cause the effects on environmental, economic, and social domains. This is shown in Figure 4.13, where indicators measuring circular economy are classified into three measurement scopes considering their LCA approach and modelling level (technological cycles and their cause-and-effect chain):⁴⁴⁴

10 Life Cycle Thinking is an approach to becoming more *mindful* of how everyday life affects the environment. This approach evaluates how both consuming products and engaging in activities impacts the environment. However, it not only evaluates them at one single step, but takes a *holistic picture* of an entire product or activity system.

- *Scope 0.* The indicators measure physical properties from the technological cycles (e.g., the recycling rate);
- *Scope 1.* The indicators measure physical properties from the technological cycles (e.g., the reusability, recyclability and recoverability indicator in terms of mass, including the potential rate to re-use products or components, recycle materials and recover energy);
- *Scope 2.* The indicators measure the effects (burdens or benefits) from technological cycles regarding environmental, economic and/or social concerns in a cause-and-effect chain modelling (e.g., the re-use, recycle and recover benefit rate (re-use, recycle and recover in terms of environmental effects)).

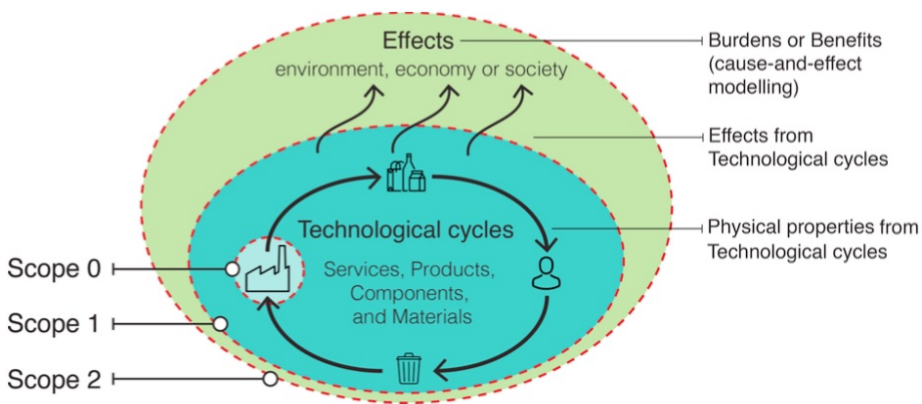


Figure 4.13: Classification of the three LCA measurement scopes from circular economy indicators (Source: Moraga et al. 2019)⁴⁴⁵

The goal of LCA is to compare the full range of environmental effects assignable to products and services by *quantifying* all inputs and outputs of material flows and assessing how material flows affect the environment.⁴⁴⁶ This information is used to improve processes, support policy and provide a sound basis for informed decisions.

As illustrated in Figure 4.14, LCA evaluates environmental impacts associated with all the stages of a product's life, from raw material extraction to materials processing, manufacture, distribution, use, repair and maintenance, and disposal/recycling.⁴⁴⁷ The results are used to *help decision-makers* select products or processes that bring about the least impact on the environment by considering an entire product

system and avoiding sub-optimisation that could ensue if only a single process were used. This holistic approach reflects Ubuntu.

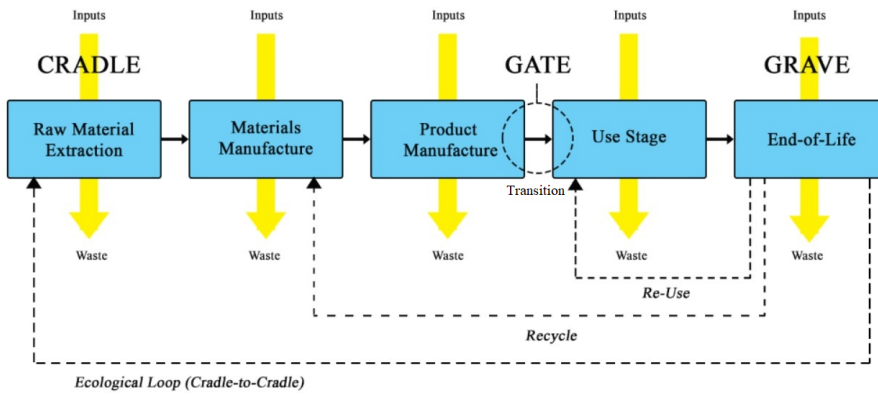


Figure 4.14: Measurement scope – different stages in LCA (Source: Vogtländer 2010)⁴⁴⁸

The analysis of LCA indicates, once again, how despite the circular economy still being an evolving umbrella concept that incorporates different meanings, it is turned into defined *action plans* supported by specific indicators.⁴⁴⁹ A classification framework like LCA helps categorise indicators according to reasoning on *what* (circular economy strategies) and *how* (measurement scope).

As part of the action plans, circular economy strategies can be grouped according to their attempt to preserve functions, products, components, materials or embodied energy (e.g., energy recovery at incineration facilities and landfills). As a final strategy, indicators can measure the linear economy as a reference scenario.

Assessment of CE practices and strategies through index methods

The circular economy introduces a new perspective that considers the whole *industrial ecosystem*, where economic growth is decoupled from resource consumption and pollutant emissions as *end-of-life* products and materials are conceived as resources instead of waste. In order to define an effective measurement process of the circular economy paradigm *adoption*, the main components of this model should be evaluated and analysed.

A four-level framework can be identified as a basis for using index methods to evaluate the circularity of a system. These include the requirements to be measured, the processes to monitor, the actions involved, and the implementation levels of the circular economy

paradigm. The composites of and the interplay between these four levels are displayed in Figure 4.15.

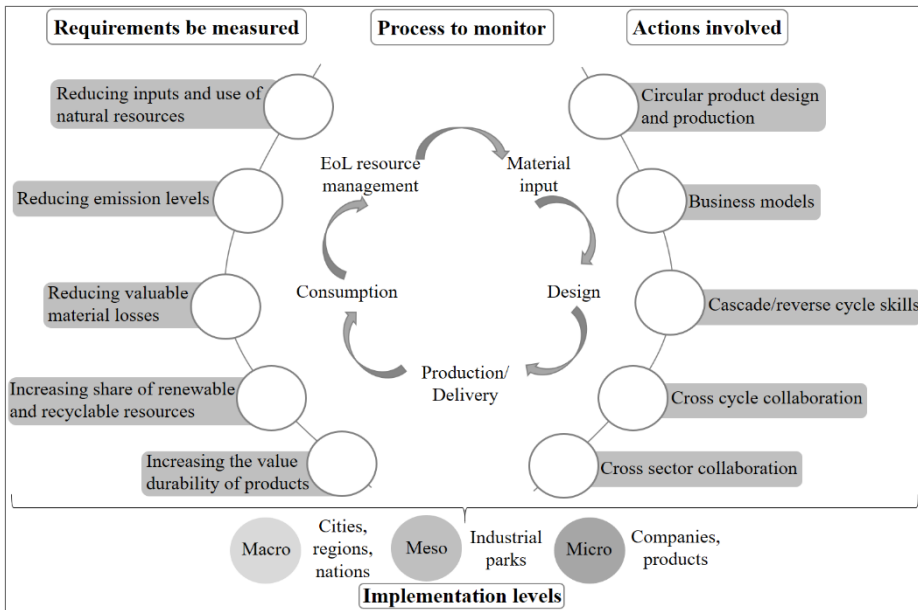


Figure 4.15: Levels in the circular economy framework (Source: Elia et al. 2017)⁴⁵⁰

Importantly and coupled with this framework, *policy intervention* through economic incentives and regulatory measures, as well as a rise in awareness and skills, is needed to ensure favourable system conditions for the *transition* from a linear economy to a circular economy (i.e., a different purpose). Based on the four-level framework, a taxonomy of index-based methodologies for measuring the *adoption* of circular economy strategies can be identified.

To clarify: the index-based method typology can be based on either a single synthetic indicator or a set of multiple indicators usually divided into several categories.⁴⁵¹ In line with Figure 4.16, the four identified parameters include:

- *Index-based methods focused on material flows.* This comprises three techniques that are single indicator index methods: First, the *water footprint* (WF) is an index method applied to measure single-impact information about a product/service that indicates potential environmental impacts on fresh water. It identifies the total volume of water consumed or polluted over the full supply chain of the

good/service, also considering the hydrological basin from which the water is provided.⁴⁵² The second technique is the *material inputs per unit of service* (MPIS) method, which measures impacts related to a specific type of material flow, that is, the material input of a product, service or process based on a cradle-to-cradle approach. The MPIS index estimates all the material inputs required for the production, distribution, use, redistribution and disposal of a product/service.⁴⁵³ The third index method is *Ecological Rucksack* (ER), which is defined as the total sum of material inputs minus the mass of the product. It enables outlining the impact exerted by the goods on the environment. Like the MPIS, the ER is used to measure the material intensity (the weight of a material in terms of kilograms) requested by a product or service.⁴⁵⁴ The advantage of material flows methods is their effectiveness in assessing resource depletion and material losses, as well as the number of renewable materials used in a process.

- *Index-based methods focused on energy flows.* Mainly focused on energy usage, these methodologies in this category are based on a single synthetic indicator. Four methods are applicable here: cumulative energy demand (CED), embodied energy (EE), emergy analysis (EMA) and exergy analysis (EXA).⁴⁵⁵ Without going into all the technicalities, it can simply be emphasised that all these methods provide valuable insight, not only on energy efficiency in a process but also giving information about the quality of energy sources.
- *Index-based methods focused on land use and consumption.* Mainly three methods widely used are part of this category: Firstly, the *ecological footprint* is a single-based index estimating the biological capacity of the planet consumed by a specific human activity or population.⁴⁵⁶ In terms of the earth's carrying capacity, EF provides a measure of the total amount of productive land required, including demand for food, crops, energy, timber, space for infrastructure and the area required to absorb carbon emissions generated. Secondly, the *Sustainable Process Index* (SPI) assesses the area necessary to support human activities in their life cycle. It measures the total area needed to embed a product or service, in a sustainable way, into the biosphere. Its calculation is based on the mass and energy flows estimated in the reference period.⁴⁵⁷ It, therefore, is space and time-dependent. Thirdly, the *Dissipation Area Index* (DAI) derives from the SPI estimation and represents the total area required to absorb the output flows of a specific process. Unlike the EF, the DAI includes the absorption

of those substances that do not belong to closed cycles in nature and thus are considered unsustainable.⁴⁵⁸ Notably, the *goal* of all the methods in this category is to measure the human pressure on the biosphere caused by processes, products and services through a single index, including implicitly different impacts linked to human activities.

- *Other life cycle analysis methods: single and multiple indicator-based impact assessments.* This includes more generalist index methods: Carbon Footprint (CF) and Ecosystem Damage Potential (EDP) in the single indicator category; and LCA, Environmental Performance Strategy Map (EPSM) and Sustainable Environmental Performance Indicator (SEPI) in the multiple indicator group. The CF and the LCA have already been explained, so the others are briefly elucidated here. EDP evaluates the impacts on the ecosystem due to land use and transformation. Linear and non-linear models are used to calculate the damage caused to the species diversity by a product, service or process.⁴⁵⁹ The EPSM is a graphical representation that integrates five footprints with a transversal cost dimension: water, carbon, energy, emissions and work environment (the number of work days lost per weight unit of product). The EPSM provides a single composite indicator derived from a process where a maximum target is defined for each footprint, and the value is expressed as a percentage of this target. Results are mapped on a spider diagram.⁴⁶⁰ The cost is considered a second dimension: it represents the *height* of the pyramid that has the spider diagram as the base. The volume of the pyramid represents the overall impact, which is called the SEPI.

Figure 4.16 provides a summary of the different index-based methodologies. As considered in their description, these techniques are evaluated to determine their potential contribution to effectively *measure the extent* to which circular economy adoption takes place. They are useful tools that can be implemented at national and local levels to improve the implementation of circular economy principles.

From this, a *guideline* can be drawn up to support researchers, practitioners and policy-makers in evaluating index methods to be applied for measuring the effectiveness of a circular economy strategy quantitatively at the micro level. The flow diagram in Figure 4.17 starts with the identification of the system to analyse and the main process(es) to monitor. In the *second step*, activities to be implemented that are supposed to have an impact on the performance of the system,

in terms of circular economy requirements, should be identified. Elia et al. highlight that:

As an example, in a circular economy strategy based on the implementation of a product-service system aiming at reducing the material intensity, the use of natural resources and material losses should be monitored among all the requirements to verify its effectiveness.⁴⁶¹

Parameter \ Type	Single indicator	Multiple indicators
Material flow	- Water footprint - Material inputs per unit of service - Ecological rucksack	- Material flow analysis - Substance flow analysis
Energy flow	- Cumulative energy demand - Embodied energy - Emergency analysis - Exergy analysis	
Land use and consumption	- Ecological footprint - Sustainable Process Index - Dissipation Area Index	
Other life cycle based	- Carbon footprint - Ecosystem damage potential	- Life Cycle Assessment - Environmental performance strategy map - Sustainable environmental performance indicator

Figure 4.16: Taxonomy of index-based methods (Source: Elia et al. 2017)⁴⁶²

In the *third step*, the focus of the analysis is made clear, choosing one or more circular economy requirements to measure based on the information obtained in the previous phases. Circular economy requirements may include reducing emission levels or increasing the share of renewable and recyclable resources. The *last step* is making the choice of an appropriate method to assess the circularity of a strategy based on the classification and the results obtained thus far.

With these steps in mind, a company can adopt a *circular economy strategy* by first focusing on increasing recycling rates (e.g., by delivering its waste to a recycling plant); additionally, it could be

oriented to re-use its own waste, thus reducing its emission levels. The necessity to measure (and take care of) these single and multiple requirements directly and indirectly then become value added to a community, which opens up new possibilities for job creation and innovation.

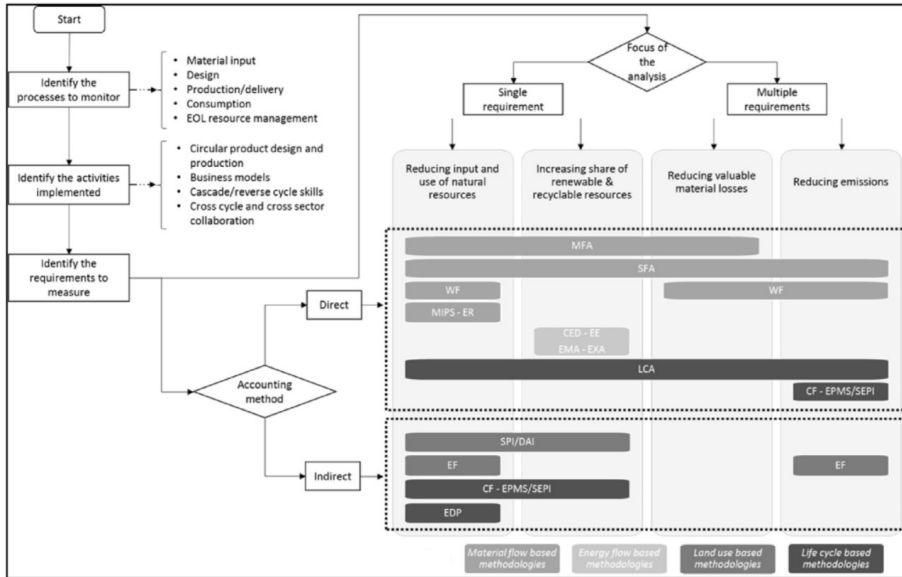


Figure 4.17: Critical steps in the assessment of a circular economy strategy (Source: Elia et al. 2017)⁴⁶³

Moreover, *targets* are required to fully strengthen a circular economy. Complementing the index methodologies and the steps to assess and optimise circular economy strategies and targets are helpful in sharpening the focus of what wants to be achieved through a circular economy. The targets identified in Figure 4.18 are grouped into five main areas of application: efficiency, recycling, recovery, reduction and design. Importantly, these areas are not distinct. Overlaps occur because of their high level of interconnections.⁴⁶⁴ For example, waste reduction targets can relate to material efficiency, while design can have consequences for all other areas.

In a heuristic manner, this aspect is conveyed in Figure 4.18 by the overlaps among the cycles that represent the areas of application of targets.⁴⁶⁵ This confirms that a circular economy encompasses a *wider range* of strategies than just recycling and recovery (e.g., re-

using or refurbishing) and more possible and innovative solutions beyond efficiency.

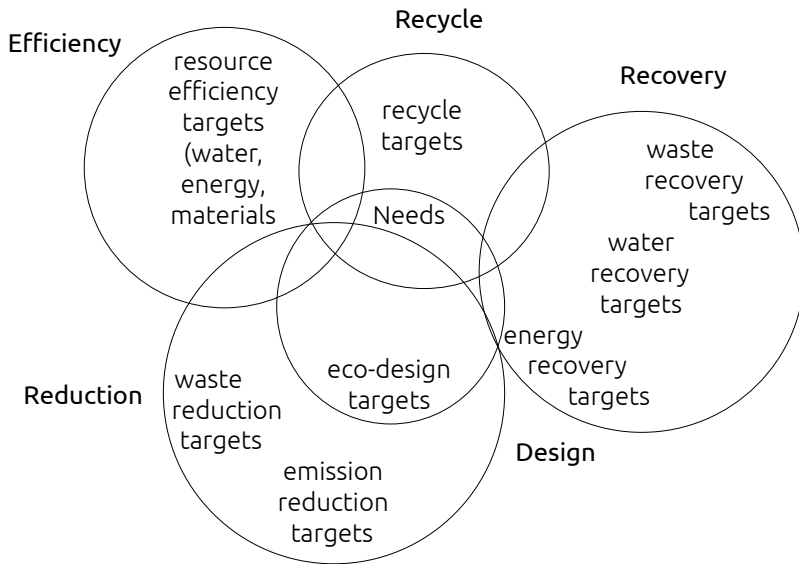


Figure 4.18: Main current circular economy targets by areas of application (Source: Morsetto 2020)⁴⁶⁶

Measuring China's circular economy

In response to the Rio+20 EU Conference in 2012, China embarked on a national circular economy strategy, placing emphasis on ecological modernisation, green growth and low carbon development. The Conference highlighted the need to develop indicators of progress that *decouple* economic growth and the environmental burden, which led to China developing new environmental indicator systems for measuring and managing a circular economy. This presented unique opportunities for other countries to learn from. Initially, Germany and Japan were pioneers in circular economy-like strategies and policies.⁴⁶⁷

Now China has stepped forward by incorporating elements of *take-back* regulations, resource efficiency goals, reduction goals and eco-industrial parks. Japan's initiative of building a *Sound Material-Cycle Society* has led to a number of interesting developments, such as *eco-towns* aimed at reducing landfill requirements and product-specific recycling targets for waste categories to be reached through product stewardship schemes, and levies and voluntary regulatory initiatives for consumers and producers.⁴⁶⁸ Whereas Japan focuses

strongly on redeveloping stagnating industries and Germany on waste-management goals, China's circular economy is a broader systemic policy, more integrated at the national level to include development planning and requiring collaboration by numerous government agencies.

China's circular economy has *evolved* quite rapidly. Its latest circular economy promotion law has gained significant political traction. National plans for safe urban municipal solid waste treatment, energy-saving, and emissions reduction are being implemented based on circular economy principles.⁴⁶⁹ Government agencies are developing *tax policies* supporting resource recovery in industrial practices.

With that, billions of dollars are being invested in circular economy-oriented *pilot projects*, from applications of clean production techniques in specific sectors to municipal and regional eco-industrial development. China has also developed good performance *indicators* for regions and industrial parks based on well-known assessment methods, such as energy, material flow analysis (MFA), life cycle analysis (LCA), CO₂ emissions and economic returns.⁴⁷⁰

Chinese researchers have been studying 'emergy' indicators for a large number of circular economy systems, and different sectors in China's economy have started to gradually implement them. Given the circular economy's broad systemic aspects, monitoring is enhanced through emergy-based indicators, which are a set of *environmental accounting* indices and ratios capable of capturing both resource generation (upstream) and product (downstream) dimensions.⁴⁷¹

Rooted in ecology, general systems theory, and thermodynamics, emergy is the sum of all available *energy inputs* directly or indirectly required by a process to generate a product. Emergy assigns value to nature's environmental effort and investment (e.g., solar, deep geothermal heat and gravity) to make and support flows, materials and services; and add value to the economic system. An emergy indicator system includes (1) intensity indicators that target convergence of resources per unit of product, labour expended, GDP generated, and the land developed; and (2) performance indicators, such as emergy yield ratio (emergy return on emergy investment), emergy loading ratio (a measure of carrying capacity), emergy density (emergy use per unit of time and area), emergy sustainability indicator (an aggregated measure of yield and environmental pressure), and emergy investment ratio (emergy investment from outside for local resource exploitation), among others. They all support multiple performance aspects in resource use.⁴⁷²

Importantly, a number of emergy-inclusive circular economy indicators provide several *characteristics* that can be integrated with other evaluation methods:

- The emergy *supply-side* evaluation system concentrates on nature's investment, on the work performed by the biosphere to generate resources and services and assesses the contributions of ecosystems to economic development.
- An emergy-based indicator approach helps track the entire *production cost*. Broadened accounting of whole supply-chain burdens assigns environmental impacts more fairly and discourages inefficient and unnecessary resource depletion.
- Emergy indicators *reflect* the space, time and natural activities needed for resource production, which a circular economy cannot ignore.
- A circular economy aims to *mimic natural patterns*, where resources are habitually recycled, re-used, converted, upgraded and stored for future use. In this manner, resources are not depleted, and waste does not accumulate. The emergy method quantifies both the direct and indirect environmental costs of waste management as well as that of untreated waste disposal. It furthermore offers the advantage of recycling in closed loops.⁴⁷³

It is vital that dispersed international research efforts be converged toward emergy as a valuable policy-making instrument. In addition to the Chinese Academy of Sciences and Natural Science Foundation of China, the US Environmental Protection Agency and the EU are already pursuing collaborative projects to evaluate the emergy's assessment capability. National governmental agencies and international groups, such as the United Nations and the International Standards Organisation (ISO), can provide avenues and repositories for circular economy-level emergy databases and resources to develop emergy as a *most practical policy tool*.⁴⁷⁴

The use of more scientifically supportive and comprehensive environmental measures will aid the legitimacy of economic and environmental decisions pertaining to resource use and trade. The challenge for the Chinese government is to strike a *balance* between scientific evidence and political expediency if their circular economy and national development efforts are to be fully successful.

What must be kept in mind, though, is the latest research findings that show how many production systems defining themselves as circular can actually lead to greater environmental damage than their linear counterparts (such as biofuels and biopolymers).⁴⁷⁵ One

model explaining this is *Jevon's paradox*, where a circular economy approach that focuses on eco-efficiency creates a rebound effect. This is when reduced costs for one product or service lead to increased demand while also creating savings that incentivise consumption in other areas. As a result, efficiency gains lead to higher levels of overall resource consumption in the economy.⁴⁷⁶

Holistically assessing and evaluating the sustainability impacts of circular systems is, therefore, of utmost importance. Figure 4.19 presents a diagram that shows synergies marked in green arrows and interactions with possible trade-offs marked in orange arrows.

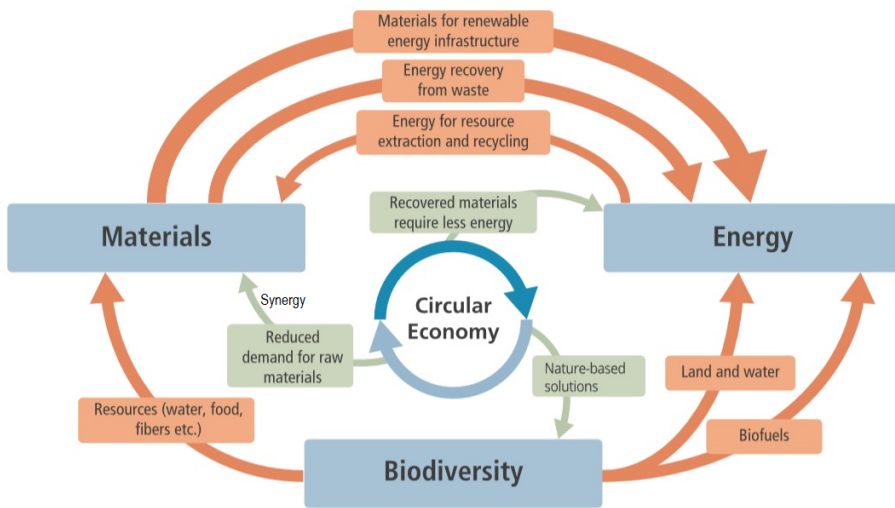


Figure 4.19: Interactions of the energy, materials, and biodiversity nexus (Source: Friant et al. 2020)⁴⁷⁷

The role of innovation and technology: The digital circular economy

In view of the Fourth Industrial Revolution (4IR) and the Internet of Things (IoT), innovative concepts and technologies relating to the circular economy are gaining tremendous momentum. Currently, it is a major new area of research that could both *improve* the circular economy's effectiveness and *enable* circular economy innovation to transform the linear economy, making it more sustainable. It is, therefore, important to underline the innovation aspect at the heart of sustained development based on circular economy components.⁴⁷⁸

In a world in which change is accelerating, the qualities of innovation, adaptability and responding to new opportunities and developments are *critical* to ensure sustained genuine economic progress. The circular economy is perfectly positioned to harness these qualities and benefits. But the circular economy also requires innovations in the way industries produce, consumers use, and policy-makers legislate.⁴⁷⁹

Due to the increase in complexity and dynamism of markets and the economy, environmental innovation or *eco-innovation* has evolved alongside advances in the circular economy. As shown in Figure 4.20, a sociological change is occurring in society from an anthropocentric to an eco-centric vision of nature and the world, which is influencing the progression of environmental innovations.

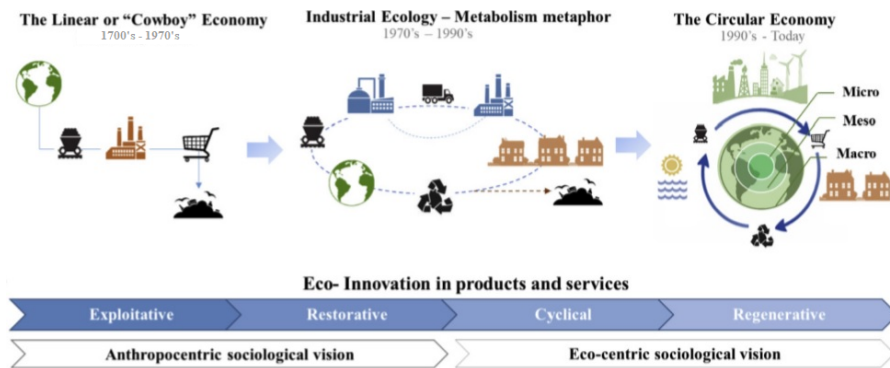


Figure 4.20: Relations between economic change and sociological change (Sources: Prieto-Sandoval et al. 2018; Chertow & Ehrenfeld 2012)⁴⁸⁰

Mainly four types of eco-innovations can be distinguished: exploitative, restorative, cyclical and regenerative. These first two are anthropocentric in nature, where *human necessities* dominate the world and growth is conceived from a linear economic perspective, not taking the thermodynamic limits of energy consumption into consideration.⁴⁸¹ Restorative eco-innovations are merely corrective innovations, developing solutions for the damage done.

The second two types come from the more recent *eco-centric worldview*, where the biosphere becomes important, and humans are part of nature's ecosystem rather than the owners of it. As Prieto-Sandoval et al. point out, "cyclical eco-innovations connect humans

and nature to the ecosystem to a higher degree, and they also improve the capacity of systems to close the loops.”⁴⁸²

In this regard, regenerative eco-innovations are very *closely related* to the ecosystem’s ability to create added value for humans and nature – a principle of Ubuntu. Figure 4.21 shows the parallel relationship between humans and nature, which requires, for the successful implementation of CE, that cyclical and regenerative eco-innovations transpire to achieve sustainable development that meets expectations for economic, environmental and social prosperity in both the short and long run.

Just as successful commercial applications are dependent on innovation, so the success of a circular economy is directly related to relevant eco-innovations developed to that end.⁴⁸³ Examples of eco-innovations oriented towards achieving the circular economy include:⁴⁸⁴

- *business model innovations* based on circular economy principles that transform how companies create and capture value;
- *network innovations*, created by working in symbiosis with other companies and related stakeholders;
- *organisational structure innovations* to bring about new organisational, functional and management practices to support strategies that favour the environment;
- *process innovations* linked to new circular economy ways in which companies make their products and offer their services;
- *product innovations* that improve the quality, functionality and profitability of the products within the ecological boundaries;
- *service innovations* that increase the use of the product by decreasing its ownership (i.e., the product is used multiple times by multiple people rather than just by one owner for a short period);
- *market innovations*, created primarily through communication channels with the customer, brand values and the product’s market positioning; and
- *consumer engagement innovations*: focusing on customer experiences and meeting their needs in a way that transforms their anthropocentric view of life and the economy.

A smart circular economy framework has been developed as part of the European Green Deal’s Circular Economy Action Plan (CEAP), which illustrates the *link* between digital technologies and sustainable resource management. This framework (shown in Figure 4.21) enables the assessment of different digital circular economy strategies with their associated level of maturity, thus providing guidance on how to

leverage data and analytics to maximise circularity (i.e., optimising functionality and resource intensity).⁴⁸⁵

Also called “the digital circular economy”, it involves digital technologies, such as the IoT, big data and data analytics, considered to be essential enablers of the circular economy. The question is: how can digital technologies be applied to capture the full potential of circular strategies for improving resource efficiency and productivity? The CEAP was developed further by Eivind Kristoffersen et al. in 2020 to answer this question and to respond to the twelve United Nations’ Sustainable Development Goals, that is, “sustainable consumption and production”.⁴⁸⁶

The circular economy indeed holds the potential to contribute to a number of the SDGs (e.g., SDG 6, clean water and sanitation; SDG 7, affordable and clean energy; and SDG 15, life on land). The smart circular economy framework presented in Figure 4.21 consists of three main elements: data transformation levels (blue triangle), resource optimisation capabilities (green triangle), and a layer linking these elements together, data flow processes (grey background).

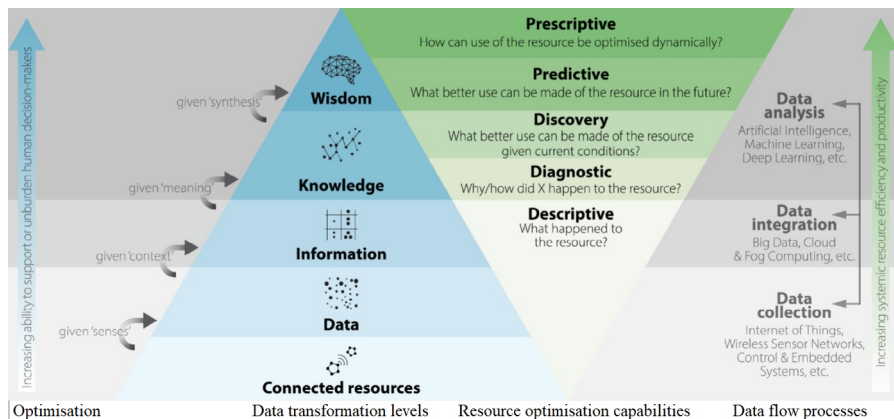


Figure 4.21: The smart circular economy framework (Source: Kristoffersen et al. 2020)⁴⁸⁷

The different elements were combined, using a hierarchy as the main organising principle where each separate level relies on the previous ones. Hence, for the data transformation levels, resources must be connected by an IoT sensor in order to generate data. This can then be turned into information by integrating it with other data sources, providing the context, and so on, all the way up to the level of *wisdom*.

Similarly, for resource optimisation capabilities in the next triangle, diagnostic analytics provide insights into *why* something happened and build upon descriptive insights of *what* actually transpired. In the third triangle, that of data flow processes, data is first collected and integrated to facilitate data analysis. Again, a similar format is followed in this triangle.

Tools for conducting circular-oriented innovation are critical to improving the link between the circular economy and possible enabling digital technologies that are valuable *enablers* of circularity in the economy, assisting with tracking the flow of products, components and materials and making the resultant data available for improved resource management and decision-making across different stages of the industry life cycle.⁴⁸⁸

The IoT, for instance, enables automated location tracking and monitoring of natural capital. Big data *facilitates* several aspects of circular strategies, such as improving waste-to-resource matching in industrial symbiosis systems via real-time gathering and processing of input-output flows.⁴⁸⁹ In broad terms, data analytics serve as a valuable *circular economy tool* to predict product health and wear, reduce production downtime, schedule maintenance, order spare parts and optimise energy consumption. Having said this: much innovation is still needed in all of these areas to enable the circular economy to fully harness the benefits of the collective, integrative capacity of circular strategies.

Supporting the CEAP, a strategic research and innovation agenda (SRIA) for a circular economy has recently been published in the framework of the *Horizon 2020 Project CICERONE*, which puts digital technologies at the core of many key innovation fields related to a circular economy (waste management, industrial symbiosis, products traceability). In their own description,

CICERONE is bringing together countries, regions and cities committed to delivering circular economy research and innovation programmes in a joint and systemic way, via a new platform that will increase knowledge sharing, networking, collaboration and co-creation.⁴⁹⁰

CICERONE has established a *circular economy platform* that sets priorities and pathways for coordinated circular economy research and innovation. This will lead to more synergy, sharing of results and return on public investments in research and innovation. CICERONE's

goal is to *speed up* the transition to a productive European circular economy. CICERONE is committed to performing impact assessments of joint programming on circular economy research and innovation and developing a policy toolkit to promote the priorities, as well as foster adoption by policy-makers.⁴⁹¹

It wants to build more commitment and synergy between circular businesses and circular projects that are currently quite fragmented globally. Following a holistic approach, CICERONE also encourages societal transformation toward the circular economy, which is also part of the EU Green Deal.

Notably, the SRIA was developed based on eight *priority themes*: biomass and biotechnologies, chemicals, construction and demolition, food, plastic, raw materials, waste and water. The themes build on four *societal areas* that face sustainability challenges: urban areas, industrial systems, value chains, and territory and sea, to identify priority areas for circular economy research and innovation (also called “innovation fields”) that address EU region-wide issues and facilitate the circular economy transition.

Based on the innovation fields, four joint programmes were developed in this SRIA: circular cities, circular industries, closing the loop, and resource efficiency on territory and sea.⁴⁹² By reducing primary material use and carbon emissions and by increasing *inclusive growth* and collaboration, CICERONE contributes significantly to the acceleration of the EU’s systemic transition to the circular economy.

In an empirical study done in 2020 by Eglantina Hysa et al. on member states of the European Union (EU28), results of econometric models showed a strong and positive correlation between a circular economy to economic growth, underscoring the crucial role of sustainability, innovation and investment in no-waste initiatives to promote wealth.⁴⁹³

The study also underpins the necessity of innovation in the core of circular economy as well as the need for *collaboration* among government, business, civil society and academia to further develop circular economy models. Other studies, furthermore, confirm that recycling rates and environmental innovation are significant factors of sustainable development and economic growth.⁴⁹⁴ The significance of innovation in the recycling sector especially is supported by more studies that validate it as an essential factor in GDP growth.⁴⁹⁵

One example of effective collaboration is Frans van Houten and Stientje van Veldhoven’s *Platform for Accelerating the Circular Economy* (PACE). It was established in 2018 by over 40 partners, including the

United Nations, WEF, Ellen MacArthur Foundation, Philips company, and others, to scale up circular economy innovations.⁴⁹⁶ PACE has three focal areas:

- Developing models of blended finance for circular economy projects, especially in developing and emerging economies.
- Creating policy frameworks to address specific barriers to advancing the circular economy.
- Promoting public-private partnerships for these purposes.

Markedly, PACE released a report in 2020 with partner Circle Economy claiming that the world is now 8.6% circular, stating that all countries are actually *developing countries*, given the unsustainable levels of consumption in nations with higher levels of human development.⁴⁹⁷

The proliferation of green technologies¹¹ (and even the greening of deserts), the use of blockchain technology for enabling a circular economy in certain sectors, and the deployment of artificial intelligence (AI) in collaboration with circular economy innovations are creating tremendous possibilities for circular strategies. Take the use of *blockchain*, for example, used as a promising technology for the facilitation of a circular economy in the built environment sector in the US. By using blockchain, the current state of each material and component can be tracked, making the proactive planning for their re-usability a concrete reality.⁴⁹⁸

By means of its *decentralised* computation feature (ledger), blockchain can easily provide full material and energy traceability, enabling the user to make predictions for the recycling and re-use of materials and goods used in the built environment. This could also be highly beneficial for smart cities and communities, where a blockchain style of information flow can produce *synergy* with other aspects of a smart and connected community.

On the issue of AI, a research report by Google, the Ellen MacArthur Foundation, and McKinsey found that AI could accelerate the transition towards a circular economy at scale and that AI can offer considerable improvements in three key areas: product design, operations and infrastructure optimisation.⁴⁹⁹ The research

11 Green technology or environmental technology or *envirotech/cleantech* is the application of one or more of environmental science, electronic devices, environmental monitoring and green chemistry to monitor, model and conserve the natural environment and resources, and to reduce the negative impacts of human involvement as well as enhance sustainable development.

investigates the application of AI in two value chains: food and consumer electronics. The potential value unlocked by AI in helping design out waste in a circular economy for food is up to 127 billion USD a year, estimated until 2030. For consumer electronics, the equivalent figure is up to 90 billion USD.

The basic similarities between the opportunities in these two industries suggest they are applicable across the economy. *Combining* the power of AI with a vision for a circular economy represents a substantial and, as yet, largely untapped opportunity to harness one of the great technological innovations of our time. It is expected to support efforts that fundamentally *reshape* the economy into one that is regenerative, resilient and suitable for the long term.

In order to truly implement a circular economy and distributed manufacturing, *both* cultural change and technological innovation are required.⁵⁰⁰ Policies that incentivise sustainable production practices and the purchase of locally produced goods can help *shift* producers and consumers away from traditionally produced goods. Incorporating circularity and digital manufacturing technology into primary, secondary and tertiary education would develop environmentally conscious consumers with the *skills* to take part in product innovation and professionals competent in solving complex technical-environmental problems.

Funding research and innovation in technologies such as low-cost IoT¹² sensors to monitor energy consumption and waste production or digital manufacturing tools can accelerate these production paradigms. Adding policy support to such innovation and education, circular models will spread much faster. Consistency is vital, but so is political will.

Conclusion

The circular economy essentially involves *decoupling* economic growth from the extraction and consumption of scarce resources with negative eco-footprints and making existing resources as continuously productive as possible. Fully implementing the circular

12 The IoT is the convergence of multiple technologies, real-time analytics, machine learning, commodity sensors, ubiquitous computing and embedded systems, forming a network of physical objects embedded with sensors and software for connecting and exchanging data with other devices and systems over the Internet. In the consumer market, IoT technology is most synonymous with products relating to the concept of the *smart home*.

economy will require, due to the complex implications, high levels of *collaboration* between different companies, industries, policy-makers, international organisations, civil society and local economic planning.

The circular economy proposes that negating/reducing structural waste decreases the demand for virgin finite materials. That is, through the application of circular economy strategies, the otherwise under-used capacity of resources can be applied to deliver *additional value* to the economy.⁵⁰¹ It also promotes moving away from using the natural environment as a *sink* to dump used resources. According to Ghisellini et al.,

Circular economy provides a reliable framework towards radically improving the present business model towards preventive and regenerative eco-industrial development as well as increased well-being based on recovered environmental integrity.⁵⁰²

Although a circular economy is recognised “as a solution for harmonising ambitions for economic growth and environmental protection,” it is also recognised for representing a *shift* from a linear to a more inclusive (circular) economic system.⁵⁰³ In popular writing, it is called “mainstreaming the circular economy”.⁵⁰⁴ A number of factors (or *disruptive trends*) that will shape the economy in the years to come are giving credence to this assertion:

- Resource scarcity and tighter environmental standards are here to stay.
- We now possess the information technology that will allow us to shift (change methods).
- The first movers (initiators) in the circular realm are capitalising on the new transparency of the (worldwide) web and eroding transaction costs.
- Companies are building/developing core competencies in a circular design.
- Economic sustainability will increasingly become the main driver of innovation.
- We are witnessing a pervasive shift in consumer behaviour (i.e., more conscientious).
- The post-pandemic world will place more emphasis on lessening *leakage*.
- A rethinking of incentives is taking place (e.g., the tax burden will move gradually away from labour/income and more towards non-renewable resources).

- Refining education in the areas of innovation, sustainability and entrepreneurship, striving towards an eco-centric world, and a new economic ethos based on shared values.
- Increased local and global collaboration on integrating circular strategies and principles.

Arguably the most formidable *challenge* in moving from a linear economy to a circular economy is the reductionist way of analysing our world.⁵⁰⁵ It was Rene Descartes, the well-known French philosopher, who claimed that to understand a complex phenomenon, you need to break it down to its component parts (reductionism). This outdated mechanistic worldview is so deeply *entrenched* that most scientists and laypeople alike, including many politicians and economists, equate scientific thinking with analytic, reductionist methods.⁵⁰⁶

Today, most researchers understand that the world is characterised by deep interdependencies, *yet* when they try to solve its problems, they do it with predominantly a reductionist approach. As Wes Jackson said, “there is nothing wrong with being reductive, so long as we don’t think the world is like the method.”⁵⁰⁷

Economies cannot be seen as separate from other parts of society and the biosphere, thus ignoring (or addressing separately) problems in those areas. This is central to the understanding and application of Ubuntu. The mechanistic idea that optimising near-term *shareholder value* should be a company’s overriding goal poses a significant danger to the well-being of human communities and all life on earth because it assumes the firm is *separate* from the greater whole of society, as well as from the biosphere upon whose life-supporting functions the firm, its employees, and its customers depend.⁵⁰⁸ No amount of precision in reductionist thought can ever remedy the harm done by ignoring such critical relationships.

The concept of *industrial efficiency* must be redefined in the context of a living systems worldview that appreciates the interactive complexity of humans and our economy being part of the greater whole that is the environment and beyond. This holistic, regenerative approach makes the environment and ethical issues not-separate special interests but *fully integrated*, as part of one body, into a collaborative whole. This is what Mahatma Gandhi meant when he stated: “The rich must live more simply, so that the poor may simply live.”⁵⁰⁹

Without a doubt, the circular economy, or at least its influence on our basic understanding of the economy, is *resetting* the purpose

of the economy. Repurposing the economy might mean, in this context, rediscovering its original purpose, as in the case of *oikonomos*. Ironically, the words ‘economy’ and ‘ecology’ both come from the Greek *oikos*, meaning *household*, which applies equally at all scales from individual households all the way up to planet earth itself (global village). It literally means our home in the universe. So, the economy, being the *management of the household*, is inseparable from ecology, which means the *study of the household*.

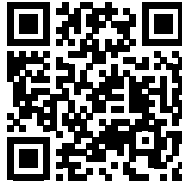
This symbiotic relationship is given full expression when the economy shifts, through circularity and inclusivity, from a competitive, mechanistic worldview to a more collaborative, eco-centric worldview. It will also require that we acquire a sophisticated understanding and comfort with complexity. This creates harmony and a symphony that brings out the *music*, the true genius of our economic capacity.

It is, however, important to note that the circular economy is, on its own, not a panacea or full solution to the problems of the linear economy. For example, the social dimension of sustainability seems to be only marginally addressed in many applications of the circular economy. That is why, as part of the fuller picture of an inclusive economy, the four other criteria are most important in completing the framework of what an alternative, more sustainable economy should include. Not that by simply combining these five criteria in building an inclusive economy is the *final package* or *answer*, but together they present workable components to genuinely rethink and re-shape twenty-first-century economies.

With this in mind, we need a *new normal* for the economy. The next chapter is another step closer to taking fuller cognizance of what this new economic normal could entail as we learn to better appreciate the collaborative possibilities of economic interdependence. Using Ubuntu as a lens through which to comprehend such symbiosis is vital – not just as a nice idea but as a way to reconnect humanity with the essence of its holistic existence. This is, in contrast to transhumanist beliefs, the organic way in which humanity can reach its full potential.

Chapter 4

Scan the QR code to access a video on this chapter by the author.



Chapter 5

Collaborative economy

“Overcoming poverty is not a gesture of charity;
it is an act of justice.”

Introduction

It was Adam Smith, considered by many as the father of economics, who said: “...What improves the circumstances of the greater part can never be regarded as an inconveniency to the whole. No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable”.⁵¹⁰ The need for collaboration, especially while or after experiencing the universal effects of the global pandemic, has never been greater than now. Economic inclusion cannot take place without intentional and *purposeful* economic collaboration.

But what does that mean? In trying to answer this question, the chapter will examine what a collaborative economy actually entails. Not just humanity, but every community shares a common fate, has common interests and wants people to act for the common good while facing common challenges relating to social and ecological limits. Cooperation is at the heart of all this, but we need to fully assimilate it.

Take food as an example. It is a basic human need and requires collaboration. The problem is not that there is not enough food for the growing global population or that we do not have (or will have) the capacity to produce food for everyone. The problem is *availability*. Only access to the market makes products available to the hungry – through money. It is as if the economy has *trapped* the planetary food system in a closed-loop cycle through commercialisation, making access dependent on income.

We need the economy to also provide other means of access and an alternative, distributive *cycle*, as part of a collaborative economy, to meet people’s basic needs without them being forced to earn an income for (economic) survival. This is where ethics and economics meet. Human dignity *must be* included in the economic equation at a fundamental level as we build a more inclusive ethos for the economy.

In fact, the need for a shared *economic ethic* could be the very thing, the (missing) balancing factor, which can align the economy, the ecology and society in the right way so that collaboration, anchored in this *common ethic*, fully unlocks the optimal potential of the economy. The type of capitalism we now have is sub-optimal; imagine what the economy could look like when capitalism is altered in a way that works for everyone.

Biomimicry expert Janine Benyus notes that “life is a team sport!” As she says, it is “collaboration rather than competition that is the survival mechanism in natural systems”.⁵¹¹ This is what the economy must learn from nature. R. Buckminster Fuller said, “I’m not trying to copy nature. I’m trying to find the principles she’s using.”⁵¹² So should the economy.

While the interdependent nature of the economy, similar to an ecosystem, is understood by economists, it is quite ironic that the *collaborative* aspect and potential of the economy are relatively unexplored. This chapter will explore this aspect in the context of inclusive, circular economic principles (Ubuntu), with the aim of examining how alternative (collaborative) thinking about the economy can bring about more *effective* solutions. This is just another facet in the quest for ensuring sustainable progress.

What is a collaborative economy?

In his book *Common Wealth*, Jeffrey Sachs alarmingly points out that “the paradox of a unified global economy and divided global society poses the single greatest threat to the planet because it makes impossible the cooperation needed to address the remaining challenges”.⁵¹³ That is why contrary to this, Lorenzo Fioramonti highlights that in an economy focused on well-being, “growth lies not in increasing material output but in the value generated through improving human relations and their connection with nature”.⁵¹⁴ Collaboration is thus fundamental to both our economic survival and our ability to thrive sustainably. We need this in the strongest sense if we truly want to build a new economy; we need people to find *reasons* to work together and, collectively, create a better future for all. Now the question is: what would this look like in a collaborative economy?

Firstly, while there has been much emphasis on global cooperation through global initiatives, what is needed now is not extra top-down approaches but bottom-up approaches where communities discover the synergy-value of collaboration and start building networks of economic cooperation from micro to macro level. This is

Ubuntu-thinking. In this way, consumers begin to create an integrated marketplace where they rely more on each other and local systems of supply (in collaboration with local firms) than on large external companies or role players to meet their needs and wants.⁵¹⁵

Note that the context of *local* and *communities* may not necessarily be geographical; it may be online too. The scope and scale of activity could also be much broader and more diverse than in a normal economic setting. Collaborative economies may include trading, renting, giving, swapping, borrowing and sharing products and services for a fee between an individual who has something and someone who needs a product or service. This often occurs with the help of a middleman. Also called a “peer-to-peer economy” (P2P) or a “sharing economy”, an online example of this is eBay Inc. Since 1995 eBay has linked millions of buyers and sellers on the Internet as a *network orchestrator*, creating a platform where participants interact, exchange products or services for money, and create value.

Secondly, a collaborative economy prioritises the three dimensions or types of individual and collective well-being: material, cognitive or subjective and relational (e.g., community).⁵¹⁶ These are holistically assimilated in a value-driven economy geared towards reducing the trade-offs between the different types of well-being. *Synergies* (between collective and individual well-being) and *empowerment* (better decisions for a better quality of life) become primary goals. Steffie Verstappen also identifies family relationships, work, friends, health, personal freedom and spiritual expression as all essential to well-being.⁵¹⁷

Joseph Stiglitz and others concur with this multi-dimensional understanding of well-being and add to this list: education, political voice and governance, and reducing existential or survival insecurity.⁵¹⁸ The objective of a collaborative economy is to facilitate and enable as many collective contributions to a *common good* in society as possible for the benefit of all stakeholders. The common good refers to what is in the best interest of humanity (or a community) as a whole; that which is optimal in the context of *shared interest* and holistic well-being.

Thirdly, the collaborative economy has taken our interdependent reality of a *global village* to a whole new level. Being then intentional about deriving shared benefits from the common good or ‘common wealth’ is vital for steering the global economy towards greater sustainability.⁵¹⁹ In such an economy, collaboration at the global level is *as important* as collaboration at the community level.

It involves a broader definition of the economy to include the microeconomic realities of people on the ground as well as that of broader or macro changes in the economy required for genuine progress, not just growth. Notably, a collaborative economy builds common wealth with the *aim* of improving collective well-being.⁵²⁰ Common wealth is a form of social capital, i.e., a positive product of human interaction.

The Organisation for Economic Co-operation and Development (OECD) defines social capital as “networks together with shared norms, values and understandings that facilitate cooperation within or among groups”.⁵²¹ These networks of relationships among people who live and work in a certain society or community, plus their shared norms, engender trust and so enable people to work together, thus helping that society function more effectively (i.e., meeting people’s needs more effectively). *Social capital* involves a shared sense of identity, goodwill and reciprocity. This signifies Ubuntu. For Donald Johnston, it “provides the glue which facilitates cooperation, exchange and innovation”.⁵²²

Social capital is a measure of the value of resources, both *tangible* (e.g., public spaces and private property) and *intangible* (e.g., human capital, people and supply chain relations), and the impact that these relationships have on the resources involved in each relationship, and on other/larger groups.⁵²³ It is generally regarded as a form of capital that produces public goods for a common purpose. The result of this is *common wealth*. True common wealth is not about money per se; it is about a good system (with new ideas, new methods, relationships and information) and having *shared access* to it.

Fourthly, the collaborative economy is differentiated by a wide variety of business models. It spans multiple sectors, each of which has its own market characteristics. A single definition is, therefore, beyond reach. However, a common element in most business models is the use of *under-utilised assets* for the extraction of economic benefits.⁵²⁴ An example of such an asset, which will be elaborated on below in the resource-based economy, is a power tool, like a drill. Rather than buying it when you only need it for a few minutes, you can rent an idle one from someone else.

A collaborative economy platform can easily assist with identifying who wants to offer a power drill and then start the exchange. In light of this, Rachel Botsman describes the collaborative economy as “an economic system of decentralised networks and marketplaces that unlocks the value of under-used assets by matching

needs and haves, in ways that bypass traditional middlemen”.⁵²⁵ The main participants in the collaborative economy are:

- service providers who share assets, resources, time and/or skills;
- users who consume the provided assets; and
- intermediaries that connect providers with consumers via collaborative platforms and that might also facilitate payments.⁵²⁶

The sectors of the economy in which collaborative platforms currently have the most significant presence include accommodation, transportation, online labour markets, and finance (e.g., crowdfunding platforms, P2P lending and community banks). The potential to expand and *localise* it is endless. Notably, this economic system has three broad characteristics:

- Access to products or services without the need to own the underlying assets.
- Re-allocation and redistribution of goods and services.
- Exchange of intangible assets while optimising the value and/or use of tangible assets.

The *resource-based economy* model is one of the extreme variants of the collaborative economy. It utilises existing resources, rather than money per se, to provide an equitable distribution of goods and services in a humane and efficient manner for all who are part of it. It is a system in which all required resources are available without the use, necessarily, of money, credit, barter or any other form of debt or servitude.⁵²⁷ Resources are managed rather like municipal utilities, just much stricter and more calculated.

Based on resource-sharing principles, this system ensures that enough goods and services are available to everyone part of the system/community without the need for means of exchange. For this to be achieved, resources (all or selected) should preferably be declared as the *common heritage* of all the community members or those part of the system. Such common heritage is like public goods and becomes part of the common wealth. Jacque Fresco claimed that if this were to involve some of the latest scientific and technological inventions, humankind could reach extremely high *productivity* levels and create an abundance of resources.⁵²⁸

The resource-based economy concerns itself with three main factors: environmental, technological and human. One advanced example of how such a system can work is the *Venus Project*. Founded by Jacque Fresco, this initiative has attracted worldwide attention for

developing a social system in which automation and technology would be intelligently applied and integrated into an overall social design (or redesign), where the principal function would be to maximise the *quality of life* rather than profits.

The prime motivation is to eliminate scarcity. To demonstrate it, Fresco has started to construct an experimental research city on a 22-acre area in Venus, Florida.⁵²⁹ Based on circular principles, the project shows that a sustainable economy, in essence, requires resources, manufacturing and the distribution of products and services. The aim is a non-monetary society where all resources are free, within reason, and distributed automatically in response to demand. In a global context, this is dubbed “cybernation”, where world resources are managed as a *global societal commons*¹ by a demand-driven (algorithmic) computer-based world utility.⁵³⁰

In such a resource-based economy, people don’t even have to make decisions; they arrive at them through the use of advanced technological tools that incorporate objective scientific methods of evaluation. It strongly counteracts subjective political influence, which decides who gets what, when and how.

Fifthly, and related to the above, the collaborative economy is also closely linked to what is called the “sharing economy”. The latter is a socio-economic system in which goods and resources are shared by individuals and groups in a collaborative way such that physical assets become services. Its growth has been facilitated through advances in big data and online platforms.⁵³¹ It includes the shared creation, production, distribution, consumption and trade of goods and services by different people and organisations.

These systems take a variety of forms, often leveraging information technology to empower individuals, non-profits, corporations and governments with information that enables distribution, sharing and re-use of excess capacity in goods and services.⁵³² Mainly two types of sharing economies exist:

1 A *commons* is normally an open-access pastureland, freely available to all who would like to graze their livestock on it. This can be part of a resource-based economy while this same principle can be applied in an open area within a community or beyond that is used for gathering resources available for sharing (e.g., on a rent or swap basis) and/or for optimising, upgrading or recycling them. It can be a kind of *common wealth hub* for the community that can also allow for community members to constructively *dump* extra resources they have at home that they’re not using much.

- non-profit, which is usually based on the same concept that book-lending libraries use, where goods and services are provided for free (or sometimes for a modest subscription); and
- commercial, in which a company provides a service to customers for profit.

When participating in the sharing economy, non-profit enterprises usually have a specific purpose of advancing a mission or objective for a *greater cause* as their primary motivation, which then involves genuine sharing of resources. Other non-profit initiatives include sharing in its simplest form (e.g., food amongst a family or in a friends' network) and *gift-giving* (e.g., sharing a product or service, like a birthday cake or open-source platforms, in the expectation that others will reciprocate or contribute in future).

For-profit enterprises buy, sell, lend, rent or trade with the use of digital platforms as a means to collaborate with other actors (e.g., *business-to-peer* (B2P) and B2B transactions). The social enterprise or *cooperatives* are chiefly motivated by social or ecological reasons and seek to empower actors as a means of genuine sharing. The government or public sector can participate in the sharing economy by “using public infrastructures to support or forge partnerships with other actors and to promote innovative forms of sharing”.⁵³³

The sharing economy is arguably one of the *fastest-growing* market phenomena in history. Investors have, since 2010, contributed over 23 billion USD in venture capital funding to start-ups that are using share-based business models. Given that many of the share-based firms are private, it is difficult to determine the exact size of the sharing economy. Figure 5.1 illustrates the varieties of this economy.

Being an all-inclusive concept that refers to a variety of commercial exchanges, the *sharing economy* has been disrupting traditional sectors of business.⁵³⁴ The lack of inventory and overhead costs helps sharing-based businesses to operate at lower expenses. These businesses can transfer value to supply chain partners and customers through increased efficiencies.

There has been a number of *key drivers* for sharing, such as how corporations have been able to tap into the informal economy by means of digitalisation and capture some of its value. Micro-transactions and P2P reviewing have facilitated ease and trust in online sharing as these apps have brought under-utilised resources online and efficiently matched them to demand. Another driver has been how it plays into a *culture shift* for millennials and Generation Z-ers; young

people are more comfortable with sharing goods than wanting single ownership.⁵³⁵ The popularity of smartphones, lower data costs and high population density in cities also contribute to this.

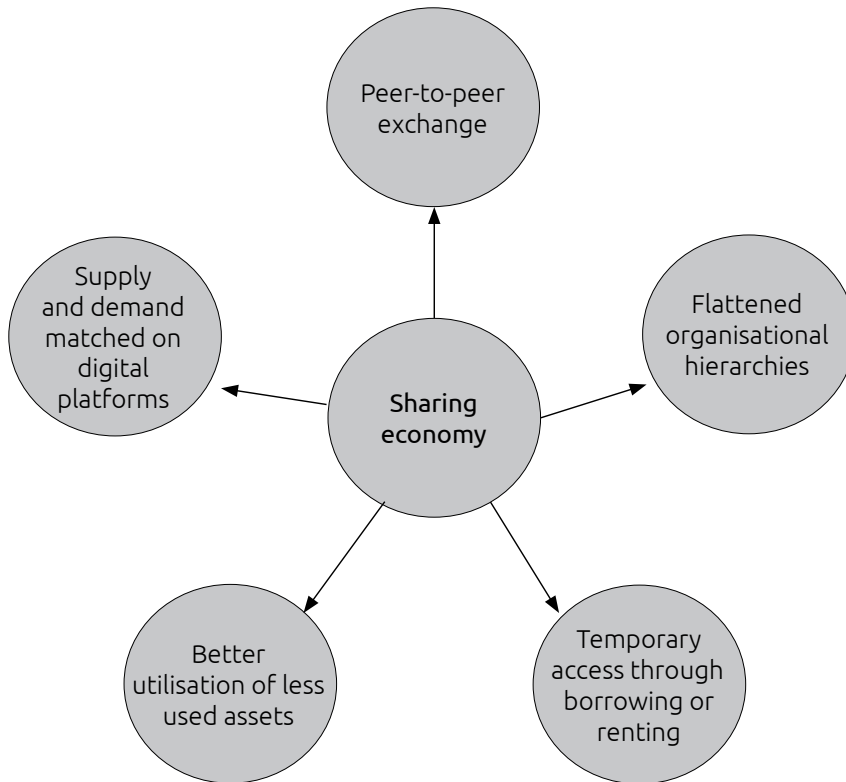


Figure 5.1: Different forms of collaboration within the sharing economy (Source: CFI Team 2021)⁵³⁶

A third driver is the institutionalisation of sharing economy practices by city governments (e.g., Denmark is starting to address issues such as rules for unemployment benefits in the context of the sharing economy; innovation offices have been set up in Seoul and Amsterdam, and working groups in Vienna, a task force in Denver, and similar institutions in other places; all dedicated to advocacy, awareness and furthering the agenda of sharing in cities).⁵³⁷ A fourth driver has been the undeniable part played by large amounts of investment in the growth of *sharing platforms*. Figure 5.2 illustrates this. The sharp rise in the sharing economy globally was particularly since 2013, led by accommodations.

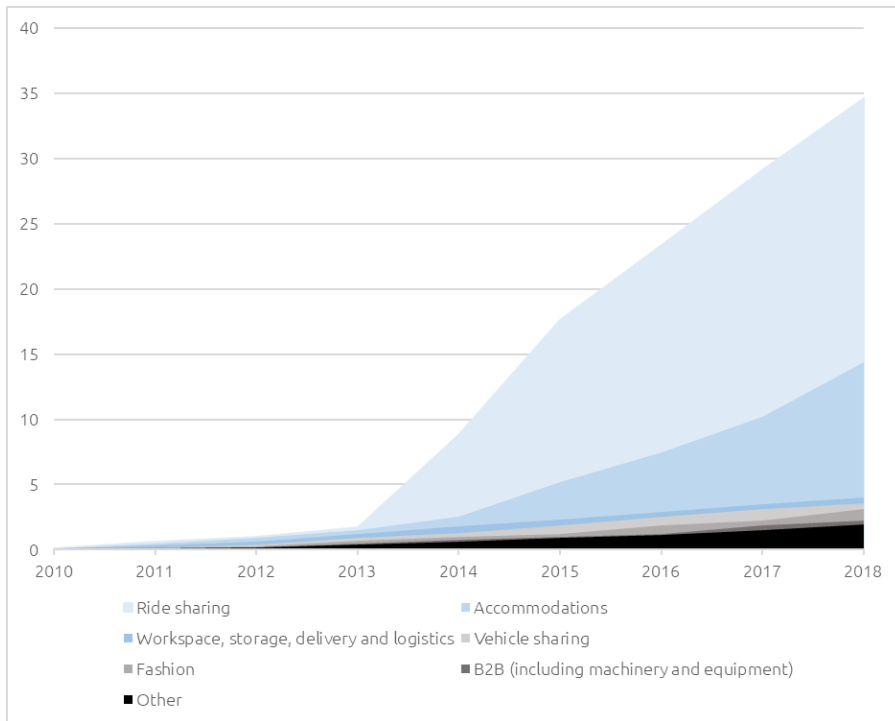


Figure 5.2: Cumulative funding of sharing economy start-ups since 2010 (billions USD) (Sources: Wallenstein & Shelat 2017; Foramitti et al. 2020)⁵³⁸

The sharing economy, which involves organised interactions where individuals or entities exchange with others the untapped *surplus* or *idle* capacity of their assets, typically for some type of payment or service, has become quite revolutionary. As a form of collaborative consumption² where using is more important than having, it reduces expenses with environmental and social concerns such as the fight against waste and overproduction.⁵³⁹

Another area in which it has caused revolutionary change is in the fact that companies operating and profiting in the sharing economy differ because their model is based on *abundance* rather than scarcity. While brand values are crucial to platforms operating in this way, they

2 Botsman and Rogers (2011:53) define *collaborative consumption* as “an economic model based on sharing, swapping, trading, or renting products and services, enabling access over ownership that is reinventing not just what we consume but *how* we consume”. To make optimal use of its potential, it requires a drastic change in thinking (*metanoia*).

are there to standardise services for paying customers rather than to make them exclusive, as in the case of the traditional economy.⁵⁴⁰

Lastly, one of the reasons the sharing economy appeals to so many people is that it allows us to make the most of our resources, particularly when they are not being used (e.g., your vehicle when you are at work). The sharing economy allows us to buy fewer things, share more and even benefit financially at the same time. In sum, Botsman identifies five key criteria for a platform to be part of the sharing economy:⁵⁴¹

- The core business idea comprises unlocking the value of under-utilised or unused assets (latent capacity), whether for non-monetary or monetary benefits.
- The company's mission should be based on shared values and be built on principles such as transparency and authenticity, which guide short- and long-term strategic decisions.
- Suppliers of goods and services should be valued, respected and empowered, while the companies behind the platforms should be committed to improving the quality of life of these providers, economically and socially.
- Customers on the demand side should benefit from being able to access goods and services more efficiently on sharing platforms, paying for access instead of ownership.
- It should be built on distributed marketplaces or decentralised networks, thus creating a sense of belonging, collective accountability and *mutual benefit* as a result of participating in the sharing community. Importantly, the fact that a sharing economy allows for better accountability adds significant value to the system, the products and the actors.

As Fioramonti points out, and in line with Ubuntu, the sharing economy means “improving the quality and effectiveness of human-to-human and human-to-ecosystem interactions, supported by appropriate enabling technologies”.⁵⁴² Such a well-being-based model empowers and includes people to make optimal decisions linked to their motives and values. It forms an *integrated network* that raises the productive participation of community members as new roles, functions and forms of production and economic utility are in the process created. Goods and services are shared in direct trade, thus replacing, but not negating, the need for mediating companies or role players. It diversifies economies *organically* and reduces problems related to resource dependence.

Enhanced by technological innovation, such collaborative networks strengthen interrelationships for higher levels of inclusive production and increase a community's social capital, whether online or geographic.⁵⁴³ Community collaboration through sharing and circular principles takes the effect of truly *caring* for others (integrating all members) and living close to healthy ecosystems. What then becomes essential is not just raising the standard of living but raising the quality of life.

The sixth reason for people to work together in a collaborative economy context is because of the regenerative way in which they engage in the economy. The effect of this is called “empowered participation”, as both parties (e.g., consumer and producer) benefit from win-win transactions.

As John Fullerton underlines, “a healthy human economy requires the empowered participation of individuals and groups, negotiating in their own enlightened self-interest as they naturally promote the health of the whole”.⁵⁴⁴ Also, many businesses, for example, are starting to embrace models of *decentralised* leadership as ways to ensure everyone has a voice, buy into the company's goals, and empower professional relationships through collaboration. By honouring community and place, a regenerative economy nurtures healthy and resilient communities and regions, as each one is uniquely informed by the essence of its individual history and place.

This is where small, local businesses, for example, have an advantage over large multinational corporations (MNCs), which must be strengthened by collaboration in giving preference to local produce. Another way of *regenerative participation* in the economy is through appreciating diversity in communities and businesses. Research showed that businesses with a greater diversity of employees are more innovative, create more profits, and have more satisfied employees (who do better work).⁵⁴⁵ Diverse perspectives help groups make more informed decisions, lead to more innovation, and foster environments of respect.

Collaborative frameworks: The honeycomb model and the access economy

An interesting model and example of how a collaborative economy works is Jeremiah Owyang's honeycomb method. It has already progressed through three stages, which will be explored here. Together with that, the *access economy* will be examined in more detail because it has important collaborative economy characteristics. Since all these

aspects have implications for business, a deeper investigation into how *inclusive business* is much more than just corporate social responsibility (CSR) will follow.

Honeycomb 1.0

When Jeremiah Owyang introduced his honeycomb model of economic collaboration in 2014, it sparked a new interest in developing alternative economies that are more circular and inclusive in nature. Explaining the concept, Owyang said:

Similarly, in nature, honeycombs are resilient structures that efficiently enable many individuals to access, share, and grow resources within a common group. Various types of bees work in a collaborative manner to feed, care, and nurture offspring, thus growing the colony. The honeycomb structure itself supports the whole by spreading the load across the structure, wasting little in its design, and easily replicating at scale.⁵⁴⁶

The aim, from the beginning, was to introduce large companies to the P2P model. It also attempts to break down the collaborative economy into identifiable component parts, carving out easy-to-digest pieces from an often-scattered new economic trend. As shown in Figure 5.3, this collaborative economy is organised visually, as a hexagonal structure, into six discrete sectoral families of goods, services, space, food, transportation and money. These are broken down into a *taxonomy* of 14 sub-classes, including custom-made goods, personal services and workspace, within which a number of example companies have been identified.

The companies listed in Figure 5.3 are just a limited representation. In 2014, there were already over 9 000 such companies, varying by country and geographical location. *Investors* are heavily funding this niche market, with over 850 million USD invested in April 2014 alone from a number of sources, including Google.⁵⁴⁷ There has also been significant resistance by regulators, hotels, taxi associations and others that were sceptical. By the end of 2014, almost 100 corporations have joined the movement.

On the *product* front, three major developments are taking place:

- People are creating and selling customised goods (e.g., using 3D printers to design tailor-made products).
- People are starting to buy wanted goods through a P2P platform like Etsy instead of going to a store.

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- People are hiring or renting (instead of buying) goods and services for short periods of time through rental-on-demand, as per their needs.



Figure 5.3: The first honeycomb model (Source: Owyang 2014)⁵⁴⁸

Food can be divided into food preparation and food sharing. People want good food, but time is limited. They then turn their kitchens into restaurants where services like Blue Apron deliver food for on-site assembly, while Munchery enables chefs to cook and deliver meals. It becomes collaborative because the chefs themselves are sharing a supply chain, marketing, delivery and even photography.⁵⁴⁹ They are co-opting the restaurant, which is a radical change; it reduces waste and bonds the community.

On the *services* front, quickly arranging for someone to take care of a task for you can either be a personal or professional endeavour; examples include walking your dog, arranging for package delivery, learning how to play the violin over the Internet, and businesses can tap the *crowd* for certain services rather than hiring a full-time person (e.g., a graphic designer).

In terms of *transportation*, not just cars (e.g., Uber) but even four-wheel rides, boats and planes are being let out in real-time. Large companies like BMW are starting the *inevitable* co-option of the collaborative model as cities are reaching the car saturation point. So, in the future, they are not going to sell a thousand BMWs; they are going to sell one BMW a thousand times.

It also breaks down personally and professionally on the issue of *space*. Ordinary people can stay in luxury for a night or two at a relatively low cost (sharing spaces), while businesses can share desks and office space as they need to, interchangeably. The goal is to activate idle space, especially in crowded cities (wasting nothing). In the *money* and finance sector, new forms of payment (e.g., cryptocurrencies) are powering much of the collaborative economy, like crowdfunding (e.g., Kickstarter) and crowdlending (e.g., LendingClub).

The geometric honeycomb shape, revealing its nature and application to the economy, allows for minimal density through the *minimisation* of the amount of material used (small ecological footprint) to reach minimal weight (light burden) and minimal material cost (little economic and ecological waste).⁵⁵⁰ This is in combination, as structurally used in the aerospace industry, with high compression properties (e.g., high output and productivity) and elasticity (i.e., adaptability to different economic contexts). The honeycomb model shows the *resilience* of the collaborative economy.

Honeycomb 2.0

After the first honeycomb model was released and the interest that it attracted, Owyang quickly realised that a number of start-ups in other industries could be included but was not robust enough in 2014 to deserve a place on the chart. Given the rapid expansion of the P2P collaborative economy since then, Honeycomb 2.0 ensued.

So, whereas Version 1.0 of the honeycomb had six industries, the expanded version had twelve. Since 2015, the new families of industries include the following (also see Figure 5.4 as an illustration of the expanded version):⁵⁵¹

- *Health and Wellness.* Helparound.co, for example, enables P2P diabetes care, including the sharing of insulin and pumps;
- *Logistics.* Postmates, for example, enables the final mile of delivery, and Roost, enables P2P home storage;
- *Corporate.* Corporations, for instance, now have their own Uber-like experience with LocalMotion, or they can build their own Airbnb with Near-me;
- *Utilities.* Power-sharing with Vandeborn, for example, or crowdfunded solar with Solar Mosaic, and Wi-Fi sharing with Fon;
- *Municipal.* Public services in cities are sharing street cleaning vehicles on Munirent, while public bike systems are heavily funded through Velib; and
- *Education/learning.* Numerous start-ups enable students to share books on Chegg and other platforms, as well as online training led by instructors and peers.

Since 2015, and as the global economy recovered from the ripple effects of the 2007–2009 global financial crisis (GFC), a *shift* in business, particularly, took place as more innovative approaches mushroomed. The growth of the Internet compelled companies to adjust, plus the new millennial consumer demanded more sharing-type of goods and services.

In *The New Rules of the Collaborative Economy* report, which Owyang co-authored with tech researcher Alexandra Samuel, it was clear that disruption was taking place in the economy, and business sectors needed to either embrace it or be at risk of perishing.⁵⁵² They identified and *recontextualised* mainly three new rules: compete on price, convenience, and brand. This started to give shape and new rigour to the collaborative economy, which was particularly encapsulated in the third honeycomb version.

Honeycomb 3.0

Arguably the most significant evolution in the economy that this, the latest stage of the collaborative model, has brought about is where *common technologies* enable people to get the goods and services they need from each other, peer to peer, instead of buying from established companies. This is what large and small corporations had to adjust to most. In the Fourth Industrial Revolution (4IR) and with the start of the Internet of Things (IoT), integrating the economy further, the collaborative economy is becoming increasingly *disruptive*, in a good way.

The Inclusive Economy: Criteria, Principles and Ubuntu

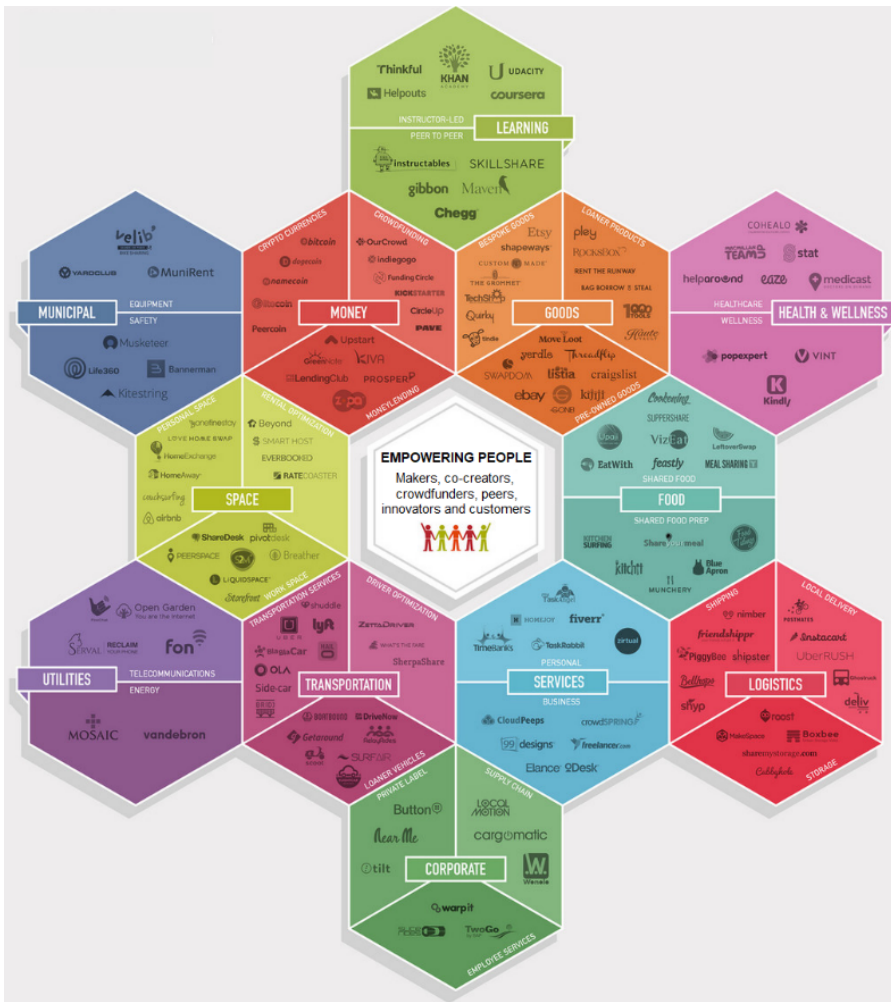


Figure 5.4: The second honeycomb model (Source: Owyang 2015)⁵⁵³

In Honeycomb 3.0, this market has grown to include new applications since 2016 in ‘reputation and data’, ‘worker support’, ‘mobility services’ and the ‘wellness and beauty sector’. Now consisting of 16 families of sectors, the third version includes an additional 280 sharing start-ups, making the total climb to over 20 000.

Figure 5.5 shows how the four new industries are included. It incorporates *new sharing trends* in the collaborative economy and established new categories, sub-categories and some re-organisation of previously established categories.⁵⁵⁴ Determining which companies to include was influenced by reviewing vendors from the previous honeycomb versions, the start-ups included on their funding

spreadsheet, and the overall market and proposals from their growing *network*. Each company was evaluated independently for meeting sharing economy criteria, its relevance to the market, its function and its location.

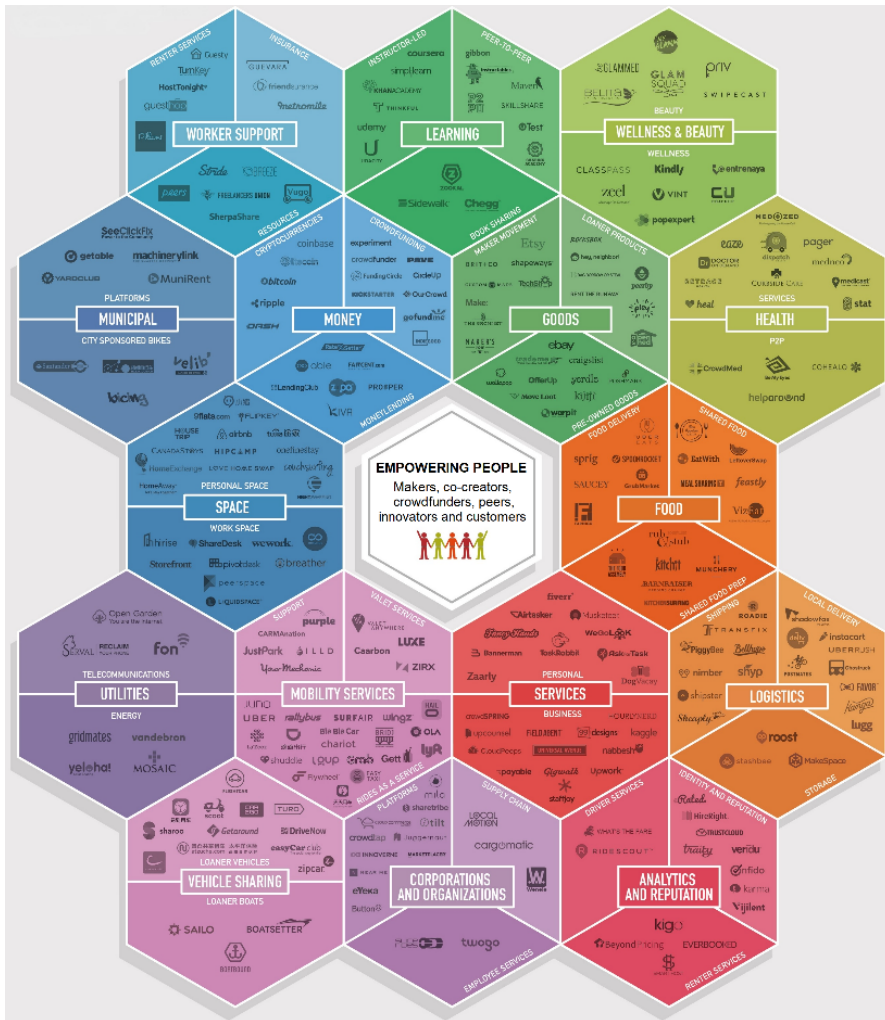


Figure 5.5: The third honeycomb model (Source: Owyang 2016)⁵⁵⁵

As reflected in Figure 5.5, a revision of the industry map was necessary, given how the collaborative economy evolved. Its growth is nothing short of phenomenal, taking into consideration how Bitcoin and numerous other companies have reshaped the economic landscape in only a few years. Collectively, sharing start-ups have already received

over 30 billion USD in funding, surpassing the social media space that spurred giants like Facebook, Twitter and LinkedIn.

Today, the world's largest hospitality brand, Airbnb, does not own a single room or hotel and is worth 113 billion USD. Uber, valued at around a 100 billion USD, is the world's largest taxi service, and it does not own a single vehicle. Barely ten years old, the online grocery shopping service Instacart is already worth 39 billion USD.⁵⁵⁶ Figure 5.6 demonstrates the annual growth of Airbnb since 2016. Of particular significance is its exceptional growth from 2020 *despite* the global lockdown due to the health crisis, which shows the resilience and adaptability of the collaborative economy.

New sub-categories in the Honeycomb model provide a clearer understanding of each company's business model and value proposition. With all the concepts and labels currently associated with the collaborative economy, it is important to grasp precisely how each company works to avoid diluting the understanding of what the collaborative economy *actually* is. Rachel Botsman outlines these terms quite well but highlights that one of the most important distinguishing factors is that it is an economy and business that is genuinely built on the sharing of under-used assets.⁵⁵⁷

In view of this and the digital revolution, *Honeycomb 4.0* is already in the making, and what might differentiate it is the incredible new technological innovation that empowers P2P exchange, which is creating a more effective *secondary market* for users to buy, sell, rent or swap goods and services amongst each other. Enterprise brands like Ford and Farmers Insurance are no longer ignoring the value of P2P exchange as a number of traditional companies have now started to integrate collaborative initiatives in order to compete and take advantage of the new P2P opportunities.⁵⁵⁸

Fundamental, though, is how it has created and/or revived communities and community dynamics as start-ups often invest much time and money into community growth initiatives, even before their marketplace launches. One example is Intel's new Developer Community, where developers globally share and collaborate on technical projects. It provides access to conversations and data on the complete lifecycle of their products, services and customers to redirect marketing and engagement.

Honeycomb 4.0 will involve significant enterprise business innovates that will reflect a *shift* in the way businesses operate. As a more inclusive mindset takes effect, a greater emphasis on community

building and increasing stakeholder access to the value chain becomes important.

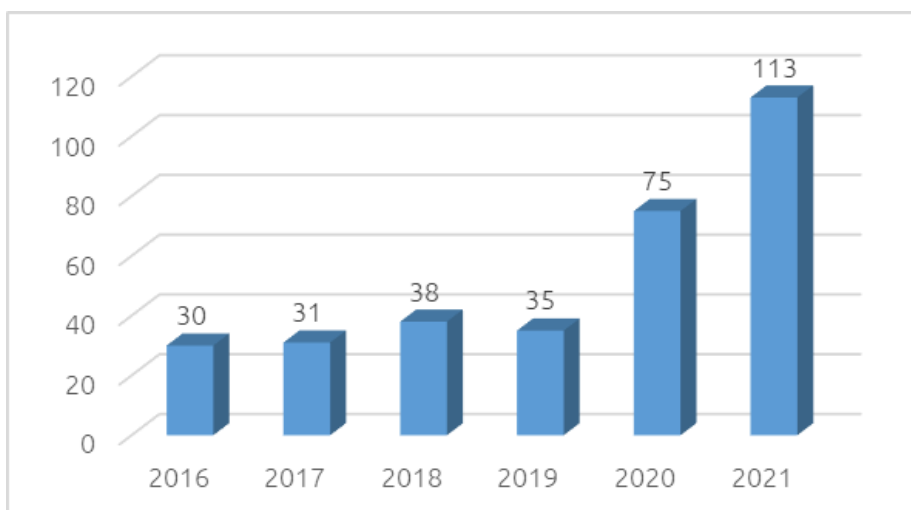


Figure 5.6: Company value of Airbnb worldwide from 2016–2021 (billions USD) (Source: Data from Statista 2022)⁵⁵⁹

The access economy

Access enables equity. In an access economy, convenience, lower prices, and inclusive access become the basis for trading, not ownership per se. In the past decade, millions of micro-entrepreneurs have been mobilised, disrupting huge sectors of the *old economy* through fast-moving tech start-ups or pragmatic use of basic personal resources. Questions like, “Why leave your driveway empty all day while you’re at work?” have turned consumers into *prosumers* as companies like JustPark are helping ordinary people earn extra income.

In the same way, the buy-to-share trend is enabling consumers to earn extra income by listing their vehicles on Uber. This is collaborative consumption. As Greg Satell explains, “Rather than assets managed by centralised organisations we have ecosystems managed by platforms. Capabilities are no longer determined by what you own or control but by what you can access”.⁵⁶⁰

The access economy highlights a very unique feature of the collaborative economy that has the potential to *redefine* the traditional economy if further refined and expanded to open up productive opportunities for everyone. As an example of this, instead of focusing on

the growth of the economy, Kate Raworth's doughnut economy model places emphasis on ensuring that everyone on earth has access to their basic needs, such as adequate food and education, while not limiting opportunities for future generations by protecting our ecosystem.⁵⁶¹ This model (as explained earlier) points in the *right direction* of how to create a collaborative access economy, especially if combined with the right policies.

The key to the access economy is knowing that the focus is on the opposite side of wealth hoarding and self-enrichment, namely on trying to ensure that everyone receives realistic opportunities to participate meaningfully in the economy, i.e., *equality of opportunity*. It is done by organically building a system for economic inclusion. Imagine you own nothing, but you have access to everything. Not that this is how the system should be, but it gives an idea of where the primary focus is. The emphasis is more on stewardship³ than on ownership and control.⁵⁶²

When we can create more access for more people to the economy, the need for ownership per se decreases; it becomes a more *realistic goal* (and less expensive) than everyone having to own the same things that everyone else does. It furthermore redefines what economic equality means because it's easier to create economic access for people (especially low-income groups) than to pursue owning the same things as the rich. This, while they can enjoy many of the benefits of the same economy that the rich benefit from (and contributes to). Economic inequality is then more concerned about lack of access than lack of ownership.

But to accomplish this, it requires a *collaborative* economic system that creates access. As we keep rethinking the economy, it is quite ironic because, as Keynes said, "in the long run we are all dead". No one can actually own something forever; we can only *steward* what we have for a time because it is a fact that someone else will eventually own the car we drive or live in the house we have, etc. So, what we have is *borrowed*, in a sense. It is a sort of gift, if you like. While private ownership is definitely important, we must be more realistic about

3 *Stewardship*, in a corporate context, comprise of the long-term well-being of business model stakeholders by eliminating value destruction that occur due to resource depletion and unequal distribution of income/revenues. This may entail transforming value missed due to, for instance, market imperfections, into value opportunities. It also plays a central part in *repurposing* business for society and the environment to achieve goals that are *mutually beneficial*.

what ownership actually *means*. In more progressive terms, it means stewardship (*nomos*). Focusing on stewardship rather than control, migrating to an access economy becomes more rewarding.

This is the new mindset of the millennials but also a surprising sort of rediscovery of the original intent or function of the economy (*oikonomos*). Having a mindset of stewardship (not ownership) also protects one from being controlled by what one owns⁴ and by what one *wants* to own. In this way, individual and collective greed can be brought under control, and the same creativity used to “make more money” can be redirected (and repurposed) towards creating more *common wealth*, which benefits everyone in a particular community (with long-term benefits, especially for the initiator).

The whole philosophy of philanthropy is based on this principle, but what we need more is to build a *culture of redistribution*, not just by the rich but also by the poor and middle-income groups. Building capacity is vital for this. Access without increased capacity (not just growth) in the economy is detrimental and unsustainable. So, creating more opportunities in the economy means not only more inclusion of those excluded but also broadening the ability of the economy to *absorb* new participants productively.

Importantly, this does not exclude new entrants’ responsibility to keep improving their own capacity (human development) to be able to make a larger contribution to the economy with better skills as they get/create more opportunities. In this way, a collaborative economy helps *anchor* the focus and commitment of all those involved in creating access and contributes to uprooting the *poverty mindset* that keeps people trapped.

All this lays a foundation for collective stewardship and loyalty to the shared cause of increasing access through a culture of redistribution. As such, improving the individual and common wealth of the community becomes a product of collaboration, not motivated by selfish desire but by *shared interest*: the will to add to the quality of life of other community members (or even other citizens of a nation). This is the heartbeat of Ubuntu. Social investment in society then becomes vital to build capacity, which may even include businesses making certain sacrifices for the greater good: to invest, for example, more in people’s lives (capacity) and in their community.

4 As evidenced by the GFC and the greediness that by and large led to it, *anything you own, can own you*. This is because of the self-indulgence factor and risk related to materialism, which is propelling the growth-driven economy.

Collective access *defeats* poverty. Building a culture of serving one another, meeting people's needs, solving problems in society and building common wealth and social capital, plus building a productive society where businesses and individuals thrive, supported by appropriate government interventions, is the *ultimate goal* to work towards in an inclusive access economy.

Similar to the sharing economy, the access economy is motivated by social interaction, exchange of goods and services and new technologies/innovation, but now only tailored towards the *purpose* of inclusion and access.⁵⁶³ As shown in two related illustrations in Figure 5.7, social interaction guides the nature of P2P interaction throughout, from first contact until the end of the transaction process. Social interaction in an access economy⁵ context can even transform business transactions during its process and, as a result, may turn out to be a *social benefit* in some form. Collaboration in the access economy can thus be for economic benefit reasons (to stimulate local economies), for social benefit reasons (to build a culture of redistribution), or for social and environmental capital or building collective capacity reasons (to create more avenues for inclusion in the economy and enhance sustainability).

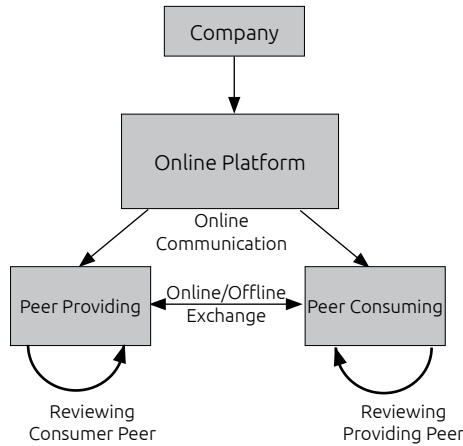
Social interaction during the transaction process can influence *motivations* of either providing or consuming on a P2P basis to further participate in the access economy. Playing a role in this is how offline social exchange during a transaction may differ from or change online social exchange. As reflected in Figure 5.7, in the interrelationship between the sharing economy and the access economy, what stands out is that *access becomes the new type of ownership*.⁵⁶⁴

Sometimes also referred to as 'cloud economics', this new way of thinking reinterprets economic freedom in the context of shared access.⁵⁶⁵ Actually, this was stimulated by consumers wanting to pursue a more simplistic lifestyle after the GFC. Fewer possessions, greater freedom and flexibility became a *new economic pursuit* rather than ownership and debt.

5 Although strongly related, the difference is: the *sharing economy* involves systems that facilitate the sharing of under-used assets or services, for free or for a fee, directly between individuals or companies; the *access economy* involves systems that enable people to pay for access to the benefit of goods rather than needing to own them per se.

Chapter 5

Sharing economy



Access economy

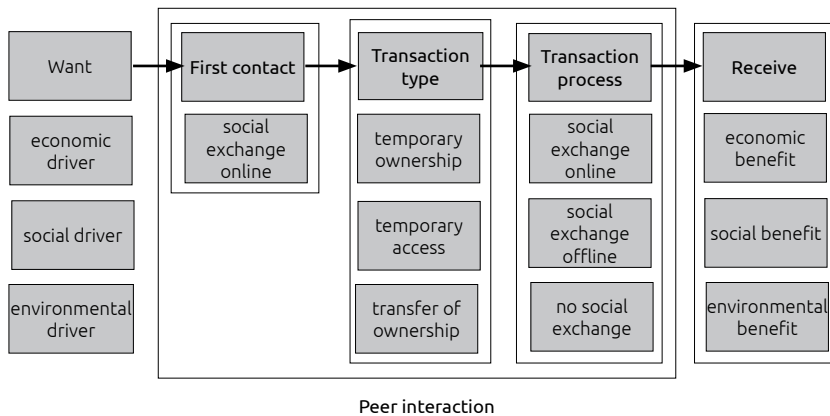


Figure 5.7: A framework for the sharing economy combined with the access economy (Source: Altrock & Suh 2017)⁵⁶⁶

In a consumer survey report by PricewaterhouseCoopers (PwC), it was, in fact, found that most people think shared access has made life more affordable, convenient, efficient and more gratifying.⁵⁶⁷ It is an important reality check for the traditional ownership model based on the old-school dream of buying all the things that you need (with most of it under-utilised or unused and draining bank accounts for repairs and/or debt repayment).

With the access economy placing emphasis on a greener and more *redistributive* model for the economy, much of the burden of ownership is shifted/offset to enable flexibility, thus redefining economic stability. The *network*, through distribution and redistribution, becomes stability, not ownership per se. Economic resilience in this way

actually creates more potential for sustainability than conventional approaches to the economy.⁵⁶⁸

For example, new opportunities for participating in the economy can be created *after* products and services have met (initial) economic needs in the processes of recycling and upcycling. New employment prospects can arise by merely rethinking our understanding of how the economy works and putting horizontal network structures in place, typical of a *bee hive*. Nearly every object and service we use in our daily lives can be networked; they can be visible and available to anyone who wants it.⁵⁶⁹

When we access rather than own the products, equipment and experiences we want, they can be returned after use. This makes our lives and businesses nimbler, mobile and our ecological footprint smaller. Then the IoT, social networks and mobile apps are not just platforms but are also the very *currency* of more integrated lifestyles.

It enables access-oriented businesses to align themselves with the way people live and interact on a daily basis. Having access to more resources: the access economy simply *aligns* the economy with how twenty-first-century consumers increasingly meet their needs since we already communicate, browse, navigate and shop through our computers and mobile phones. Preferring *peer reviews* and user communities over advertising, it is good news for enterprises that consumers prefer to interact via mobile apps, especially given the new normal that the global lockdown has brought about.

Millennial consumers trust start-ups that have no privately-owned assets. This means the barriers to entry are much *lower* than before, and businesses can scale extensively. So, in effect, the access economy is what emerges when access to a product (or service) becomes affordable, satisfactory, convenient and reliable enough that the premium on ownership of the product virtually disappears.

With an increasingly open-source future ahead of us, establishing a *culture of redistribution* in the very fabric of society is quite realistic now that innovation is accompanied by a sharing, collectivist approach. The access economy thrives on such trends and makes, for one, distribution management easier. Normally, different distribution channels service various points or entities along the entire supply chain that extends from raw material suppliers and manufacturers all the way to consumers or other end users. The direct delivery of goods to consumers through e-commerce websites has led to a number of *changes* in distribution methods, allowing access for more role players.

For example, Amazon has numerous order fulfilment centres from where it arranges to have goods shipped to customers,⁵⁷⁰ enabling it to offer a timelier delivery service in collaboration with others than would be possible if all goods were warehoused in and shipped from one location. In a collaborative economy context, *sharing is caring*, an essential part of human nature and cultural behaviour. Ubuntu is in everyone. Access over ownership will enable humanity to create and innovate more than what was possible a few decades ago.

Remarkably, the access economy is *democratising consumerism* because the experience of consuming goods and services is not necessarily constrained anymore by a buyer's purchasing power.⁵⁷¹ In addition, the millennial buyer takes pride in their ability to save not only money but also ecological resources; and since they have a green conscience, they want to be associated with sustainable and fair business practices.

Building a collaborative economy: How is inclusive business different from CSR?

Business models that focus on social inclusion by emphasising human *dignity*, rights and economic sustainability are nothing new. While less emphasis has been placed on environmental or relational inclusiveness, the idea of inclusiveness in business emerged more strongly in the 1990s with the introduction of Structural Adjustment Programs (SAPs) in developing countries.⁵⁷² CSR⁶ became the initial focus for companies worldwide, but many have remained there and have not gone *further* to truly transform into inclusive businesses. It has led some to even consider how market approaches can address socio-economic challenges.

CSR is indeed a vital baby step. While many corporate efforts, though well-intended or merely serving as window-dressing, have been applied, not many have succeeded in establishing inclusive businesses. The concept itself has not been fully defined in the literature, but consensus exists that

inclusive business is a private sector approach to providing goods, services, and livelihoods on a commercially viable basis,

6 CSR is a business model or management concept that helps a company to be *socially accountable* to itself, its stakeholders, and to the public. Becoming more socially conscious through CSR, companies try to integrate social and environmental concerns in their business operations and interactions with their stakeholders and the public at large.

either at scale or scalable, to people at the base of the pyramid by making them part of the value chain of companies' core business as suppliers, distributors, retailers, or customers.⁵⁷³

It increases *access* to goods, services and livelihood opportunities for low-income people in commercially viable, scalable ways. An inclusive business model seeks to *create value* for low-income communities by *integrating* them into a company's value chain on the demand side as clients and consumers and/or on the supply side as producers, retailers, distributors, entrepreneurs or employees in a sustainable way.⁵⁷⁴ Providing opportunities for people living at the bottom of the pyramid (BoP) (those earning less than 8 USD a day) allows the poor to step into new roles in participating in the economy. Inclusive business, therefore, differs from CSR in mainly three ways:

- *It is more integrated.* Rather than mere corporate philanthropy that tries to do something for the community, it builds social capital *with* the community on a continuous basis to improve, through collective ownership, a community's capacity to develop sustainably.
- *It is more intrinsic.* Rather than just ticking the boxes in terms of its *triple bottom line* (profits, people, planet), an inclusive business changes the way it does business by creating and maximising value for all stakeholders related to the business, not just its shareholders.
- *It captures value differently.* Rather than just surface-level adjustments in value creation, businesses can only be viewed as inclusive businesses when they succeed in making social value creation *integral* to how they intend to capture value while still avoiding value destruction.⁵⁷⁵

On top of this, inclusive business involves many more aspects that make its role imperative in a collaborative economy: Firstly, inclusive businesses *customise* their model to take advantage of opportunities to work with low-income people, those without access to basic goods, services and income generation opportunities that they need. Not only do such people benefit when these businesses provide greater access to basic products, services and livelihoods, but the businesses benefit as well, which is important for stimulating the local economy.⁵⁷⁶ In this way, they can *turn* under-served populations into dynamic consumer markets and diverse new sources of supply, plus turn consumers into prosumers. New product, service and business model innovations take place in the process that can give these businesses a competitive advantage in more established markets.

While they still are a fairly small percentage of the total number of businesses, research is showing that inclusive businesses are providing clean water, education, electrical power, health care, modern communications, financial services, and income-generating opportunities to millions of people at levels of quality and affordability they have never experienced before; if they ever had access.⁵⁷⁷

Closing the access gaps for the poor in ways that are commercially and financially self-sustaining, inclusive businesses are laying important *foundations* in communities whereupon to build a collaborative economy. The COVID-19 pandemic has deepened the development gaps of the poor, pushing millions more into poverty, which makes the role of inclusive businesses more critical than ever.

In his book *The business of sharing*, Alex Stephany articulates how valuable the contribution of inclusive business has become in addressing the problems of exclusion evident in the linear economy. He notes: “A more diversified economy that is less reliant on giant companies and banks would be a more resilient one. Everyone would benefit from the robustness of distributed networks of production.”⁵⁷⁸

This is the actual result of a *culture shift* as the rules of business are being rewritten every day. For instance, changes in the automotive industry are just a small component. Today, it is the whole mobility industry that is evolving and becoming integrated in new ways. Automotive companies like BMW and Elon Musk’s Tesla are *reframing* themselves as providers of mobility, not merely manufacturers of vehicles. Suddenly Apple, one of the mobility leaders, becomes a competitor, which changes the market completely, but with innovation, price and often environmental benefits for consumers. As Padden Guy Murphy, Head of Business Partnerships at Getaround, explains:

If you can make money off cars you’re going to buy, it means in theory, you can buy higher quality, cleaner and hybrid electric vehicles. So if you become a brand leader in that space, that’s really powerful.⁵⁷⁹

Perhaps the most *significant* change is that consumers are choosing to buy mobility as opposed to just buying a vehicle. Highlighting how inclusive business is not only changing the nature of business but also the business landscape, Rachel Botsman and Roo Rogers detect three categories: Firstly, there are *redistribution markets*, which redistribute goods from places where they are not wanted to ones where they are.⁵⁸⁰

Secondly, there are *collaborative lifestyles* that enable people to use a co-working space rather than a conventional office, workshop or garden (e.g., Landshare). Thirdly, *product-service systems* allow people to get the benefit of assets while leaving the hassle of ownership to a company (e.g., Uber or Zipcar). Consumers, wanting reciprocal motivations to be met, have given rise to the *prosumer*. Building businesses from their bedrooms, this new class of *homepreneurs* are creating value at the same time as getting what they want from those around them. The lockdown has simply energised them with more creativity. For instance, energy prosumers in Germany are no longer passive consumers; they now generate and consume their own electricity, contributing over 8% to energy output.⁵⁸¹

This *hybridisation* of consumers and producers is adding momentum to the move of businesses towards inclusive business models. Mainly two developments, as part of the business of sharing, drive this innovative change: collaborative consumption and new production and service opportunities. This is also reflected in Figure 5.8, which summarises various types of inclusive business models in the literature, with some examples included. It gives a joined snapshot of the extensive research and start-ups in this blossoming field.

The businesses that design and use inclusive business models can range from MNCs to large domestic companies to cooperatives, small and medium-sized enterprises (SMEs), or even non-profit organisations (NPOs) that use business principles, or *social business approaches*, to achieve their mission in the interest of not only themselves but of communities.⁵⁸²

As shown in Figure 5.8, the different types of inclusive businesses vary significantly, but one interesting *rethink* of business is “exchanging services and skills’ pooling”. This is where, for example, one can repair someone’s computer, but instead of paying cash for this service, the payment will be in exchange for a wellness treatment (e.g., a massage). It is a type of resource economy based on knowledge and skills pooling. *Repair Cafes* are a variation of this, with nearly 1 000 set up around the world that bring locals together to repair broken household items without any money or exchange other than conversation and knowledge about fixing things occurring.⁵⁸³

Other ways of thinking *out of the box* are supermarkets and shopping malls using their roofs to plant food gardens and then distributing the fresh produce directly in store, and even selling it much cheaper to the poor, or even donating it. This shows how efficiency innovation and inclusivity are supposed to go *hand in hand*.

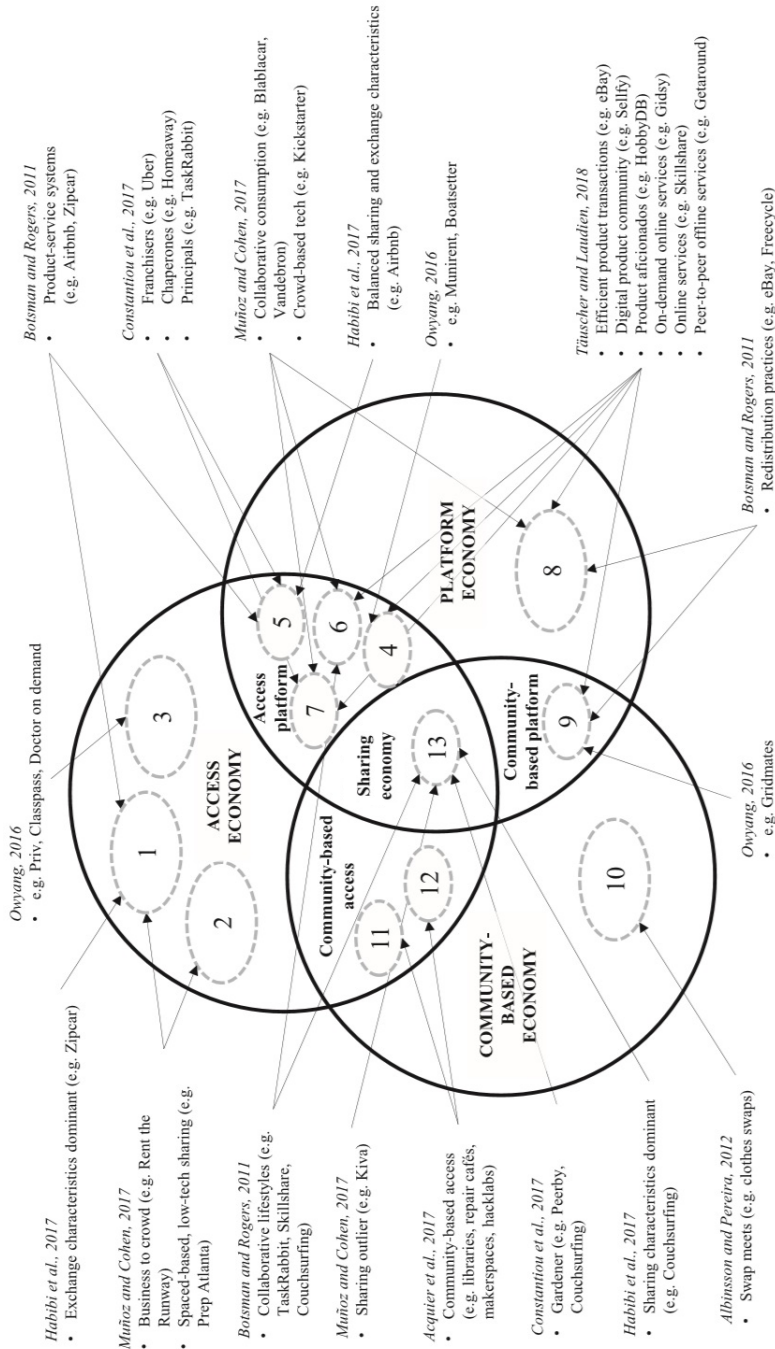


Figure 5.8: Literature categorisation of different inclusive business models (Source: Laukkanen & Tura 2020)⁵⁸⁴

We are indeed living in a complex, interconnected world where diversity, shaped by globalisation and technological advances, forms the fabric of modern society. But there is a unique *opportunity* to use it to everyone's advantage. With this in mind, a free and uncontrolled society that embraces organic progress is utmost.

Inclusive business can only thrive where there is economic freedom that is guided by shared values (*not* greedy-profit values or centrally planned economy values). Despite polarisation factors in society, inclusive businesses can play a valuable role in creating workplaces and *work cultures* that mirror the socio-cultural dynamics at play in people's lives outside work. As Vijay Eswaran, Executive Chairman of the QI Group of Companies, confirms,

Diversity in the workplace is an asset for both businesses and their employees, in its capacity to foster innovation, creativity and empathy in ways that homogeneous environments seldom do. Yet it takes careful nurturing and conscious orchestration to unleash the true potential of this invaluable asset.⁵⁸⁵

Companies are discovering that, by supporting and fostering a diverse and *inclusive* workplace, they are gaining benefits that *go beyond* the optics. Eswaran goes further and states:

Business has the transformative power to change and contribute to a more open, diverse and inclusive society. We can only accomplish this by starting from within our organisations. Many of us know intuitively that diversity is good for business. ... The moral argument is weighty enough, but the financial impact – as proven by multiple studies – makes this a no-brainer.⁵⁸⁶

The coming together of people of different ethnicities with diverse experiences in cities and communities is a key driver of innovation. Singapore is an example of how cultural diversity has proven to be an *asset* to the nation, and the result is relative racial harmony and high productivity. Malaysia is another country where its multilingual workforce has given it an advantage in the workplace.

A Boston Consulting Group study found in 2018 that companies with more diverse management teams have 19% higher revenues as a result of innovation.⁵⁸⁷ This finding is significant for tech companies, industries and start-ups where innovation is a key driver of growth. It shows that *inclusivity* is not just a metric to be strived for; it is actually an integral part of a successful revenue-generating business.

Flexibility and versatility are becoming the *key* to success for individuals, businesses and countries alike, and a culturally diverse environment is proving to be the best way to acquire these qualities *if managed well*. By the year 2030, 75% of the global workforce will be made up of millennials.⁵⁸⁸ This means that this group will occupy most of the leadership roles over the coming decade and be responsible for making important decisions that affect workplace cultures and people's lives.

Having a more *inclusive* perspective on diversity, they see diversity as a melding of varying experiences, different backgrounds and individual perspectives that brings advantages to a business: increased profitability and creativity, stronger governance and better problem-solving abilities. A 2021 Deloitte Millennial Survey shows that 80% of millennials believe their organisation is *more innovative* when it has a culture of inclusion.⁵⁸⁹ If businesses are looking to hire and sustain a millennial workforce, inclusion must be part of the company culture.

Secondly, inclusive business enables the collaborative economy to contribute to inclusive growth. A noteworthy global initiative has been the OECD's Business for Inclusive Growth (B4IG) in partnership with an international CEO-led coalition of companies combating inequalities of income and opportunities.⁵⁹⁰ Their concern is that growing numbers of people in all societies are being left behind, not being able to benefit from the enormous wealth created by globalisation and technology.

In the context of the COVID-19 crisis, this fight against inequality is more necessary than ever. Having hundreds of members, partners and role players on board, B4IG aims to help build stronger and more inclusive business models and to build a *network* of inclusive businesses to multiply the reach and impact of individual efforts occurring around the world.⁵⁹¹ As a strategic partner, the OECD supports B4IG by coordinating with governments and leveraging its data, analysis, and global standards. By sharing best practices, developing new solutions, launching pilot programs and developing metrics to better evaluate inclusive growth efforts, B4IG demonstrates the ways in which businesses can become more inclusive and more effective in contributing to inclusive growth.

It works closely with policy-makers to advance inclusive growth at both global and local levels, as well as with private organisations and inclusive businesses dedicated to inclusive growth. The shared concern of *correcting the divergence* between the growth in wealth

and growth in inequality is bringing their collective forces together by making growth inclusive. In view of this development, Pauw and others stress that:

Indeed, inclusive business has become paradigmatic, with national and international development agencies promoting it as a justification of delivering innovative development and finance with and through the private sector.⁵⁹²

The principle of *business for inclusive growth* is what delineates inclusive business essentially. As the emphasis of economic growth is increasingly shifting towards inclusive growth through the Sustainable Development Goals (SDGs) and new development paradigms, businesses are challenged to become more inclusive. Being better placed to contribute meaningfully to inclusive growth and to a number of the SDGs, inclusive businesses are able to include income-constrained groups productively into both the supply- and demand-side of the value chain. This would be considered an *inclusive value chain* as it enables new distribution channels and lowers the barriers to entry by enhancing the inclusivity of market channels.⁵⁹³ Figure 5.9 illustrates, by means of a flow diagram, how marginalised people can be included productively in a business value chain, following a cyclical approach.

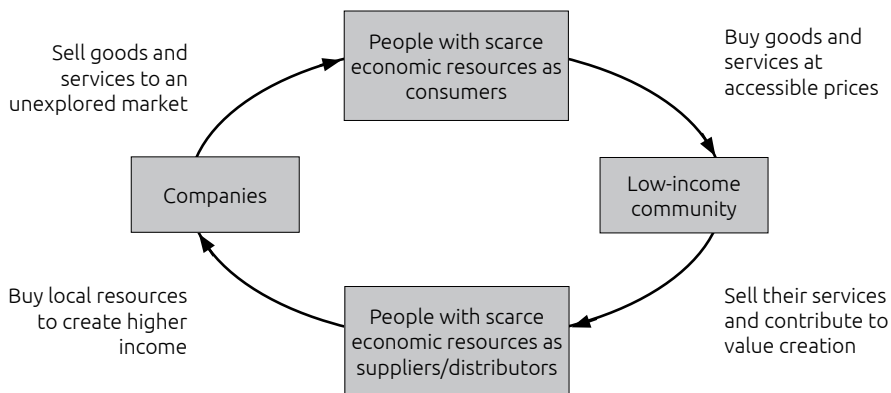


Figure 5.9: Integration of low-income communities in a business value chain (Source: Golja & Požega 2012)⁵⁹⁴

Notably, the concept of inclusive business originates from a similar notion that underpins inclusive growth, namely that “economic and development objectives can be complementary because of the

commercial opportunities that can be exploited from actively engaging and/or serving the *bottom of the pyramid*".⁵⁹⁵

This is why inclusive business is identified widely as one of the possible solutions to, particularly, market failures and unknotting that which frustrates the meaningful participation of low-income groups in the economy. Whereas the focus in inclusive business is mostly on integrating their target groups into the value chain, inclusive growth focus on *productive employment*, participation or engagement. While this may seem contrasting, the fundamental principles of both concepts are similar: that vulnerable groups *actively* participate in and contribute to economic development rather than merely being beneficiaries.⁵⁹⁶

Productive participation is generally recognised as performing activities that contribute to producing a product or service. Integrating the poor into business value chains, even at a global level, therefore, involves them bringing a specific product from its conception to its end-use. As Schoneveld highlights: "This includes design, production, marketing, distribution and support to the final consumer."⁵⁹⁷ That is why merely targeting income-constrained end consumers or making impact investments is *not part* of either inclusive growth or inclusive business models but rather part of social business models or philanthropy (i.e., simply providing otherwise unavailable goods and services to neglected minorities who need them). As far as inclusive business for inclusive growth is concerned, this now answers the question: *Inclusiveness of what?* The question: *Inclusiveness for whom?* has also been answered in drawing attention to the low-income, marginalised, poor, the BoP, vulnerable and/or income-constrained groups. For conclusive clarity, the final question: *Inclusiveness towards what?* has a twofold answer: creating value through solutions to neglected problems in communities; and value co-creation and innovation via partnerships.

One of the U-turns that inclusive business enables us to make is to stop thinking of the poor as victims or as a burden and start *recognising* them as resilient and creative entrepreneurs and value-conscious consumers. Serving low-income consumers will demand innovations in technology, goods and services, and business models.

More importantly, it will require inclusive businesses that can work *collaboratively* with civil society organisations and local governments. Market development at the BoP will also create millions of new entrepreneurs at the grassroots level: from women working as distributors and entrepreneurs to village-level micro-enterprises.⁵⁹⁸

These micro-enterprises will be an integral part of the market-based ecosystem. This confirms, and as Figure 5.10 shows, that *co-creation* will eventually be the solution to the problem of poverty.

The opportunities among income-constrained groups cannot be unlocked if large and small firms, governments, civil society, development agencies, and the poor themselves do not *work together* towards shared goals. Entrepreneurship on a massive scale is the key. This will challenge the prejudices about the *role and value added* of each group and its role in the economic development at the BoP. Research provides evidence that the poor themselves are willing to experiment, learn and change.⁵⁹⁹

Most important, though, is collaboration across the various groups. As Figure 5.10 illustrates, the interconnectedness of the co-creation approach to economic development and social transformation is crucial, especially for innovation. Innovation is a vital part of inclusive business, inclusive growth and meaningfully involving the entire private sector ecosystem. The creation of new opportunities and involving the marginalised in those processes is what truly integrates/ reintegrates them into productive economic activities and growth.

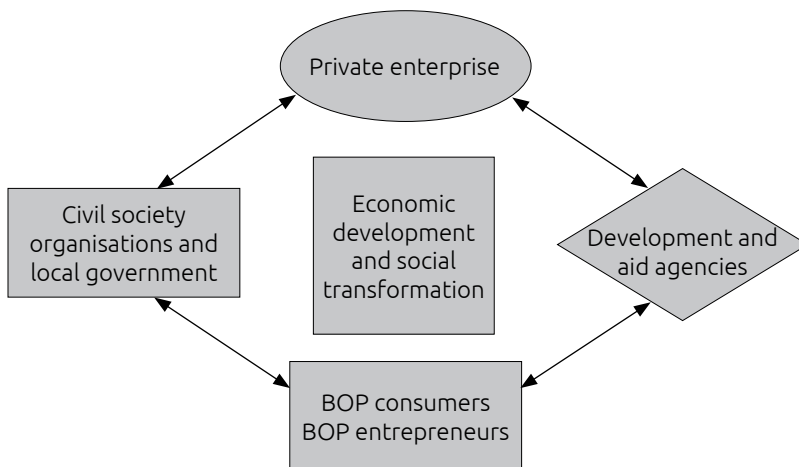


Figure 5.10: Co-creation through collaboration initiated by inclusive businesses (Source: Prahalad & Hart 2002)⁶⁰⁰

This is also called “pro-poor business innovation”, which entails entrepreneurial activity within a corporation characterised by creative bundling of scarce resources that even helps to overcome organisational constraints and mobilise internal and external resources.⁶⁰¹ In this

way, pro-poor business models create opportunities for co-creation that revitalises and sustains a collaborative economy.

MNCs face a Catch-22 situation: After the GFC and the global pandemic, they are desperate in their search for *new growth* to satisfy shareholders, and they increasingly encounter vigorous *resistance* from millions of socially and environmentally conscious consumers. If corporate expansion were to happen at the expense of the poor and the environment, they could close their doors.

The solution to this dilemma is a “great leap” to the BoP, where many aspire to join the market economy for the first time.⁶⁰² *Disruptive innovation* can pave the way for this. There are clearly many reasons why companies should include over 4 billion people in their value chain. Table 5.1 provides a poised summary of key elements related to building an inclusive business in a collaborative economy. Based on essentially three criteria (i.e., human development impact, self-sustainability and positive environmental impact), four factors are highlighted as vital model components.

Thirdly, inclusive business increases the power of business. Creating mass-market access for the poor can disrupt the pyramid from the bottom up (BoP) in a good way. Business *efficiency* can lead the way through inclusive businesses. Actually, not just businesses and prosumers are seeing the need for *inclusive collaboration* but also governments and non-governmental organisations (NGOs).

The public or institutional sector is driven by government procurement, hospitals, schools and food aid agencies. While intermediaries like NGOs and development agencies (local and international) are driven by local and national economic development, farmer empowerment and community upliftment.⁶⁰³

Appreciating the contribution of each role player in a collaborative context places the focus on what is called the “economics of mutuality”. This concept started when, in 2006, a major shareholder, John Mars of Mars Inc, asked the CEO the following question: “What should be the right level of profit for Mars?” The obvious answer would be “the maximum level,” but it *repurposed* the company back to the original intention over 100 years ago of its founder, Frank Mars (grandfather of John).⁶⁰⁴ In 1947, his son, Forrest Mars, stated that the company’s objective is “to promote a mutuality of service and benefits”. This gave new life to its concept of *mutuality*, which means: the creation of shared and lasting positive benefits across stakeholders through an organisation’s activities.

Table 5.1: Factors to consider in an inclusive business model

1. Benefits for the poor	2. Benefits for business
- Creating jobs and increasing incomes (including those in value chains as producers and small-business owners). - Meeting people's basic needs (food, clean water, etc.). - Increasing productivity (access to products and services). - Empowering the poor (individually and communally).	- Profitability through developing new markets (yielding higher rates of return; offering profits tailored to the poor). - Driving innovation (creative responses to the poor). - Expanding the labour pool (cost savings and new ideas). - Strengthen value chains (expand supply and lower risk).
3. Constraints	4. Success factors
- Limited market information (know little about the poor). - Ineffective regulatory environments (lack access to the protections afforded by a functioning legal system). - Inadequate physical infrastructure (roads and supporting infrastructure are absent or deficient). - Missing knowledge and skills (poor people may lack the ability to use particular products available to them). - Restricted access to financial products and services (lacking credit, cannot finance large purchases; lacking insurance to keep assets safe; their finances (money) are unsafe/unlocked, and transactions are expensive).	- Adapt products and processes (tech and innovation). - Invest to remove market constraints (is cost-effective when a business creates private value that is tangible). - Leverage the strengths of the poor (engaging them as intermediaries and building on their social networks). - Combine resources and capabilities with others (engage other businesses in mutually beneficial partnerships). - Engage in policy dialogue with governments (businesses can provide good information about poor people's problems and offer new and practical solutions for government policy-making and -implementation).

(Sources: UNDP 2012; Seelos & Mair 2007)⁶⁰⁵

Today, operating in more than 80 countries as a global food and beverage provider, employing over 100 000 people and with revenues of around 40 billion USD, Mars Inc is a successful example and a global custodian of the economics of mutuality: putting something back into the community, the environment, the supply chain and the stakeholders; a model that attempts to solve the problems of people and the planet profitably.⁶⁰⁶

John Mars was concerned that if the firm extracted more than its rightful share from its value chain partners, this could create a *squeezing effect* whereby one stakeholder would be driven to squeeze another for more margin, ultimately creating a disequilibrium. He said: “If you take care of the left [downstream] part of the value chain [growers, processors], it will take care of the right [upstream] part of the value chain [manufacturers, distributors, consumers]”.⁶⁰⁷ Stakeholders can consider then if there should be a minimum income at each step (and what it should optimally be) and whether there should be a maximum *standard deviation* between the income of each stakeholder. This is to make the value chain more stable and sustainable.

It presents an opportunity to ensure that not just income/returns increase for each participant in the value chain but that everyone’s quality of life improves. This requires an additional emphasis on other forms of capital as well. For instance, financial capital is typically cash or liquid assets being held or obtained for expenditures, but *shared financial capital* is what is worth more in a collaborative context. It is how economic benefits of business activities are shared among a value chain’s participants, in order to ensure a sustainable margin and wage and to identify where supply chains are comparatively strong or vulnerable.⁶⁰⁸

This is the economic value created locally and in the wider community, together with social capital,⁷ natural capital and human capital, to which all the stakeholders contribute.

This approach *combines* different forms of capital in the value chain as different stakeholders collaborate as partners, build trust, productivity, community cohesion, job satisfaction, talent attraction, and capacity for collective action; give proper guidance to investment decisions, making all partners more resource-efficient and all activities more environmentally sustainable. Moving from *business as usual* to inclusive business, therefore, entails a whole reorientation of business. It literally is a repurposing⁸ of business, according to Florian Lüdeke-Freund et al.⁶⁰⁹

7 Social capital in this context is non-financial relationships that affect a community’s well-being and prosperity in ways that can bring sustainable quality of life increases which, in turn, positively impact performance. *Human capital* involves key drivers of individual and collective well-being (e.g., skills, health and knowledge), while *natural capital* is the complete input flow of natural resources used across the entire value chain of a product (Roche & Jakub, 2017).

8 Repurposing business for society and the environment requires organisational innovation that seeks to overcome value destruction due

In the words of Bruno Roche (former Mars chief economist) and JayJakub, “now is the opportunity to reactivate and expand to reposition the business as a restorative healing power” in communities.⁶¹⁰ Brett Johnson explains the concept of *repurposing business* well by stating that businesses have unique assets, people, skills and experiences that must take full cognizance of the unique realities (truth) of their surroundings to address critical community needs in a way that they reconcile their abilities productively with those needs, which are seen as impact opportunities.⁶¹¹ Every business wants to leave a lasting *legacy* and be known for making a difference, not just making money. It’s who we are as humans, and we all want to be part of something (e.g., a company) that changes lives in a meaningful way.

The *true impact* is observed when a business maximises every activity to serve and improve the lives of those around it; leverages its unique strengths and assets to address societal ills (especially those that can bring breakthroughs for communities), and aligns and engages those in its sphere of influence or networks around a greater purpose. By becoming an inclusive business, a business essentially repurposes itself in and for its surrounding community.

In their book *Putting purpose into practice*, Colin Mayer and Bruno Roche affirm that beginning with a meaningful purpose is the critical starting point for both: Defining the ecosystem the business is part of and developing the most effective interventions that address the problems and concerns of stakeholders.⁶¹² An *outside-in* perspective nurtured through the creation of an ecosystem map is a foundation for developing strategic business interventions able to drive innovative value creation. It is also important to have methods/instruments to measure impact and drive the performance of interventions. Without quantified knowledge of impact and progress, a business’ purpose will find its way into the *implementation gap*. Mayer and Roche identified a number of requirements for such a methodology, which describes the right (collaborative) *mindset* for inclusive business:

- To consciously de-centre itself from the system so that it does not, out of habit, place its own version of reality, problems and performance at the centre of the ecosystem.
- It must embrace an ethic that seeks to create a *mutuality of benefits* for many based not on enlightened self-interest but out of a commitment to delivering on-the-purpose (this means that

to profit maximisation and the exploitation of natural and human capital by improving alignment between corporate and societal goals. It means shifting the focus from gains to impact; from profit to significance.

a business adopts the posture of an orchestrator, not a dictator, leading on the basis of trust rather than fear or power).

- When delivering on a purpose, complexity is unavoidable and must not be reduced but rather collectively managed through developing the right tools and *partnerships*, which could lead to a source of inspiration, innovation, and the impetus for other businesses to develop their purpose to solve meaningful challenges and cross-sector partnerships.

An exceptional (or perhaps extreme) example of an inclusive business is Karma Kitchen's *pay-it-forward* model. It is more than just a restaurant; it is a social experiment to see how long the chain of generosity might last. In this restaurant, the prices on the menu are relative, and people enjoy a meal that's already paid for by the person(s) who came before them. When you get your *bill* after finishing your meal, you owe them nothing, and it says: "To keep the chain of gifts alive, we invite you to pay it forward to those who dine after you".⁶¹³ It is an irresistibly exciting concept that has attracted not only the attention of happy and inspired customers (by the *feel-good* experience) but also researchers from different fields.⁶¹⁴

The economic model being used is called the "Gift Economy", and quite a number of firms around the world in different sectors have adopted this model with surprising success.⁶¹⁵ Some practitioners and authors even advocate that the pay-it-forward approach be utilised as the primary means of economic transaction.⁶¹⁶ After first opening its doors in Berkeley, California, in 2007, Karma Kitchen is now spread around the globe. It is run by volunteers who have collectively contributed almost 80 000 hours of their time to serving over 100 000 meals as part of the chain of gifts. In their own words:

The generosity of both guests and volunteers helps to create a future that moves from transaction to trust, from self-oriented isolation to shared commitment, and from fear of scarcity to celebration of abundance. ... *shaping a future* rooted in celebration of abundance rather than fear of scarcity, in trust rather than trade, in shared commitment rather than selfishness, in connectivity rather than isolation, in participation rather than exclusion.⁶¹⁷

This shows the economic power of *generosity* and is a practical example of "doing well by doing good."⁶¹⁸ In a world plagued by moral degeneration, and severe economic challenges after the global

lockdown, we certainly need examples like these that inspire hope. It also helps to redirect the hypnotic focus on money away from the transaction to the person.

The socio-economic benefits of rethinking how we do business and implementing alternative economic methods have significant potential for finding new economic solutions. The vital element, again, is *collaboration*. It relates to Principle 7 of John Fullerton's regenerative capitalism framework and 'robust circularity'.⁶¹⁹ Just like nature is a cyclic, regenerative system in which each part serves a purpose, even the ones considered waste, so a collaborative circular economy by all stakeholders that are part of a company's value chain can put into practice a circulatory, value-enhancing *flow* of information and resources to build resilient local economies.

If you have product life cycles being extended innovatively, waste streams being reduced (and transformed into new products), and multiple stakeholders benefiting from a profitable value chain in a closed-loop economic system, you create *win-win* opportunities. Clearly, inclusive business is the *key to unlocking* this potential by combining efficiency and generosity for a greater purpose. This is how you build robust circularity in a community's economy with ripple effects to other communities.

A final and important aspect to consider in this section is measuring the *inclusivity* of inclusive business. Since businesses can only manage what they measure, and given the need for quantifying impact and progress, quality evaluations would enable businesses to better harness their potential to contribute positively to inclusive growth and development. Concepts like "business fighting poverty" and "business making a difference" have become popular buzzwords, but in most cases, they lack substance in terms of actual inclusive business applications. How would one separate inclusive practices from non-inclusive practices?

To answer this question, you first need to ask: What constitutes *inclusive* as regards a business's value chain? Though definitions differ, and in view of the analysis above, two key aspects that consistently differentiate inclusive business are *mutual benefit* (company and community and/or company and environment) and *integration* into the business value chain.

Before being too definitive about what constitutes inclusive, one should be careful not to decide *for the poor* what is good and what is bad for them, echoing the economic principle that any agreement entered wilfully on the part of both parties serves to increase one's

utility. Comparing high nutrient yoghurt (e.g., Danone) with cigarettes complicates matters, but the principle is important. To help clarify the selection aspect, Elise Wach developed a “causal chain” that links inputs to outcomes and impacts and uses the *theory of change* as a basis for evaluating whether the intervention is expected to have its intended impact.⁶²⁰

Making use of a neutral product like Nirma (an average quality, low-cost detergent), Figure 5.11 shows the causal flow of change or impact. The deciding factor concerning inclusive or non-inclusive at each link of the chain is the extent to which the *output* of the business translates into a positive *outcome* in the community. If this is the case at most of the chain links (not necessarily all the links), it is considered inclusive.⁶²¹ In a practical sense, if the outputs of an inclusive business model (e.g., job creation, locally sourced inputs and selling products to the poor) translate into the desired development outcomes (positive economic, social and environmental impacts), it is regarded as an inclusive value chain.

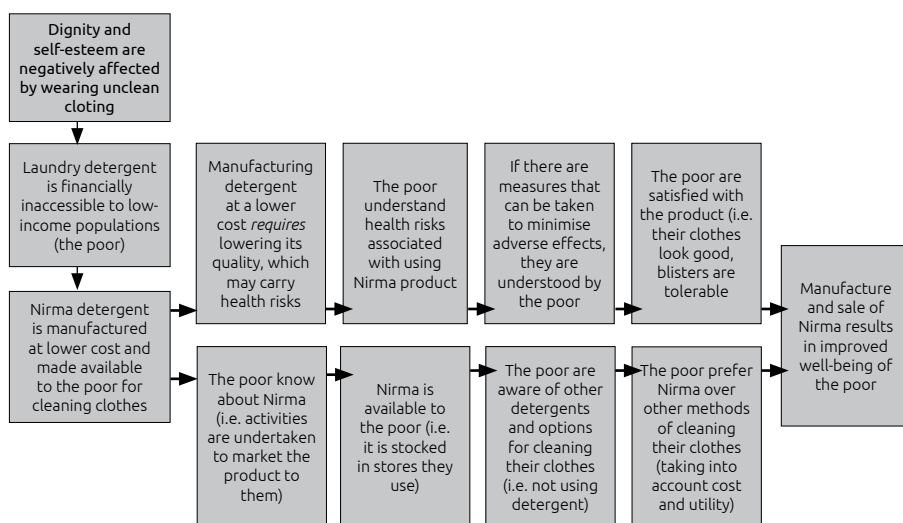


Figure 5.11: Causal chain of analysis for inclusive business evaluation (Source: Wach 2012)⁶²²

There now remains the issue of how to *weigh* potential positive and negative impacts, which refers to the question of how would one separate inclusive practices from non-inclusive practices, and to what extent is a business action inclusive? First, it is important to recognise that no business model can avoid negative impacts: Even the most pro-

poor enterprises will inevitably have some negative consequences, despite the efforts of management to avoid them. This means there are normal limits to the development objectives they can achieve and the negative impacts they can avoid.

Secondly, two related factors here are *who* determines how the positive impacts weigh against the negative impacts and *how*. Both “inclusiveness” and “net impact” should preferably be determined by those who are most directly affected by the intervention(s).⁶²³ In terms of how to weigh the impacts (and business outputs), two processes are required: monitoring and evaluation (during the intervention) and impact assessment (after each intervention). A number of frameworks have been developed to include these two requirements, with a variation in emphasis. Table 5.2 summarises them.

Together with the casual chain of the frameworks in Table 5.2 and Figure 5.11, the following *indicators* can be employed to measure business model progress.⁶²⁴ That is, how they become progressively more inclusive over time as they grow in their capacity as regards inclusive impacts and outputs:

- volumes traded between BoP smallholders and target buyers;
- smallholders’ return on investment and net margin increase due to business intervention;
- the number of smallholders supplying produce via target groups;
- the number of informal and formal contracts (growing an inclusive network);
- the number of repeat contracts;
- the number of extra buyers approaching smallholder groups (growing an inclusive market);
- the number of additional market outlets available to buyers; and
- the number of stakeholders being added to the inclusive value chain.

Table 5.2: Frameworks for determining the inclusivity of inclusive business

Instrument	Type/ Emphasis	Description	Case study examples
Business Call to Action (BCtA) Results Reporting Framework	Monitoring and Evaluation (M&E)	An M&E framework for businesses to report on their activities using fixed/standardised indicators (quantitative and qualitative in nature); annual reporting is required for BCtA membership.	Cadbury Cocoa Partnership
INSEAD Economic Footprint	Impact Evaluation	Uses a Social Accounting Matrix, Input-Output tables, and Economic Rate of Return models to analyse direct, indirect and induced impacts; has a strong economics focus but also evaluates social and environmental impacts.	Unilever South Africa
Oxfam Poverty Footprint	Impact Evaluation	A methodology for impact evaluation based on five research areas (value chains, macroeconomy, institutions and policy, social implications of environmental practices, and product development and marketing). Used on a case-by-case basis; not intended to enable systematic comparisons between firms.	Coca-Cola SABMiller in El Salvador and Zambia
Business Innovation Facility (BIF) M&E System	M&E	Its framework uses standard indicators and allows companies to add in their own indicators; it entails reporting at the start and end of the project and 12 months after completion.	Non-available at this time

The Inclusive Economy: Criteria, Principles and Ubuntu

Instrument	Type/ Emphasis	Description	Case study examples
Impact Reporting and Investment Standards IRIS (Impact Reporting and Investment Standards)	M&E	A reporting framework with fixed indicators that measure social and environmental impact (quantitatively and qualitatively) but is a more accurate tool for enabling investors to compare enterprises; reporting protocols are determined case-by-case.	KL Felicitas Foundation, California (investment portfolio)
World Business Council for Sustainable Development (WBCSD) Measuring Impact Framework	M&E	An adaptable guide (in terms of local context) with in-built consistency control mechanisms (for reliability) to measure impact (quantitatively and qualitatively), which allows companies to choose their own indicators and to identify which impacts of the business model to measure.	Nestlé Bienestar en Casa

(Sources: Wach 2012; BCTA 2010; Oxfam International 2009; BIF 2011; WBCSD (2009))

In sum, a growing movement of businesses sees their role as *more* than just maximising shareholder value. They prioritise environmental and social goals as much as fiscal ones. They understand that they can leave the world a better place than it was when they started and do so profitably. This is the business sector's response to John Fullerton's Principle one in *Regenerative Capitalism: In right relationship*.⁶²⁵

Ultimately, business is one part of human civilisation, which is just one part of the web of life on the planet. Viewing business in relationship with the rest of the planet changes how it functions. This collaborative perspective can turn business into a *force for good* and a powerful ally in solving some of the most important challenges in the twenty-first century.

A new economic ethos coming out of the collaborative economy

Inspired by principles of social and environmental justice, the emerging inclusive development discourse is premised on the supposition that in order to effectively *balance trade-offs* between economic growth and well-being and/or the environment, growth has to become inclusive.⁶²⁶

Adopting a dual process–outcome perspective of inclusiveness focused on participation in decision–making and governance processes relating to the economy and businesses, a more encompassing appreciation of *inclusiveness* came into being that incorporates not only principles of social inclusion but also ecological and relational inclusiveness.⁶²⁷

This is an important context, coming out of the collaborative economy, for a new economic ethos taking shape organically, based on inclusivity and access. This is Ubuntu, seeking a new normal for the economy that works for everyone, where its organic evolution is combined with concrete decisions for redirection.

While the collaborative economy is indeed a somewhat surprising departure from mainstream economics in terms of the start of a new economic ethos coming spontaneously into the making, there is still a challenge. Although some social value, normally of the kind that promises a profit, is being created, other social value remains at risk of getting destroyed. The collaborative economy takes acts once done for free and puts a *price* on them.

According to Alex Stephany, this will have two consequences: (1) it will underpin an ever-greater proportion of acts of generosity, hospitality and courtesy with cash and self-interest, increasing the risk of morality being monetised, thus shrinking to mere random acts of benevolence with no links to money; and (2) the number of these non-monetised acts could itself shrink as, for example, fewer families donate second-hand clothes (or other goods/resources) to charity when they can easily sell them.⁶²⁸

Not that this is unethical, but it asks *moral questions* about economic behaviour and motives. It is not abnormal for pro-social deeds, those done out of the goodness of our hearts to benefit someone else, to become monetised, but what about the economic implications: many of the poor and the weak depend on them. Otherwise, their poverty can destroy them.⁶²⁹

Behavioural scientist Dan Ariely has indicated that once you have induced people to view acts as economic exchanges (trading), this fundamentally alters the way that people behave.⁶³⁰ While the sharing economy *scales* paid pseudo-neighbourliness. deeds, it is likely to end up in a contraction in truer unpaid neighbourliness. It thus needs guidance.

The collaborative economy undoubtedly *helps* the wider economy by increasing trust and cooperation between people. Francis Fukuyama confirmed through his research in a number of countries that there

exists a *positive relationship* between trust and prosperity.⁶³¹ Author Mitt Ridley studied how collaboration creates prosperity and concluded:

The great trend of human history is away from self-sufficiency to specialised production and diversified consumption. Growth is a collaborative enterprise and has been for thousands of years. Sharing is at the heart of human endeavor; this very human habit of exchange can be trusted to drive the collaborative economy and our future prosperity.⁶³²

Consumer values are *different* from a generation ago. People now prioritise sustainability and re-use. They desire local, communal and collaborative solutions. It is about only using what we need, precisely when we need it. It is about doing *more* with less, which is good for efficiency, and it appears to be good for sustainability as well because sustainability needs consistency, and consistency needs some (moral) standards.

This points directly to the question: *Do we need ethics in economics?* Answering this first of three important questions: the emphasis is placed here on how to address the inevitable intersection between economic thinking and moral reasoning, applying both in practice. The interface between economics and ethics essentially exists because economics is a social science, i.e., economic activities are determined by human decisions and actions, which are based on an array of social factors: needs, wants, convictions and general behaviour.

Yet a *fine balance* is needed not to mire an objective science with subjectivity. In answering this first question, let's start with the reality we are facing. On the one hand, we see unending cycles of economic crises, and on the other, we observe that "global capitalism is among the most pervasive and most powerful forces in the world today, and it is a force for good and for ill – for much good and much ill".⁶³³

Since, arguably, no better alternative to capitalism exists, its *reform* has become a necessity. Given that today's supercapitalism has serious ethical implications that conscientious consumers, commentators and business leaders are concerned about, it is fair to ask what moral/ethical constructs should guide it or somehow be involved, and how would that be determined?

The starting point is *generally acceptable values* within humanity. The basic rationale is clear: norms and understandings may not become apparent until they are broken, such as an adult attacking a child; he/she breaches the norms that protect children from harm.

Values may be more open to question; indeed, societies often debate whether their values are changing. And yet values, such as respect for people's safety and security, are an essential linchpin in every social group.⁶³⁴ Put together, these networks and understandings, almost unknowingly, engender *trust* and so enable people to work together.

The four *cardinal values*: prudence, justice, fortitude (i.e., courage) and temperance (i.e., moderation), lay a basic, acceptable foundation. Immanuel Kant's *virtue ethics* premised on the significance of goodwill, and the role of rules and duty could provide another layer. On that, it is worth noting what Aristotle pointed out: It is not the act that necessarily matters, nor indeed whether it turned out to be *the right* thing to do; what matters is the personality, the desire/disposition to behave in particular ways.⁶³⁵ In Kant's deontological ethical theory, an action can only be *good* if its maxim, the principle behind it, is a duty to the moral law and arises from a sense of duty in the actor.⁶³⁶

Perhaps more modern indicators/gauges of the values we share across cultures today are the *World Values Survey* and the *Valuegraphics Survey* of the World Economic Forum (WEF), which rank family, relationships, financial security, belonging, community, respect, freedom, education or personal growth, loyalty, personal responsibility and reciprocity the highest.⁶³⁷

Added to this, one can also consider the norms involved in the origins of economics. Portraying this possibly the best is Adam Smith's *The Theory of Moral Sentiments* (1759). From this ethos framework right at the genesis of traditional capitalism, it is clear that Smith vigorously emphasised: "human sympathy", a "fellow-feeling" (that unites human beings in a way that transcends mere utility); "right conduct" ("man ... realising that his own welfare is connected with the prosperity of society"); "moral duty" (for the benefit of the common good); and a "universal benevolence"; all of which the market should be subordinate to.⁶³⁸

So, in the question about *do we need ethics in economics*, the real question is whether these values/norms/morals have any relevance to the functioning of the economy? The simple answer is yes. It is not so much about whether the economy has any moral responsibility, but it is about whether its system and its participants have any moral accountability.

The collaborative economy has shown that shared values, or inclusive economic values, have a *transcendent* effect on people. Barnes identified perhaps best the great concern about today's form of capitalism: "The *moral vacuum* at the heart of capitalism."⁶³⁹

Responding to this isn't just about bringing morality back to capitalism. It is something more: the place of economics in whom we see ourselves to be as humans and how we understand the basic orientation of our lives. Addressing the vacuum is thus an endeavour to *align* capitalism not just with common morality but with our very humanity.

The second important question, therefore, is: Why do we need ethics in economics? Scholars agree, by and large, as they examine the economy, that it reveals, to varying degrees, itself to be mostly structured in ways that contradict generally accepted ethical values.⁶⁴⁰ It would seem that this is due to the narrowness of supercapitalism principles, which are almost exclusively focused on maximising monetary benefits and, in effect, on the separation of the economic realm from the realm of ethics.

Many fear that economics now exists as an *independent realm* in which some crucial values can be routinely disregarded. As Frederick Trainer points out: "The problematic nature of the economy is most apparent when issues of global sustainability and justice are considered."⁶⁴¹ The concern is that these problems are systemic as part of how the economy has become structured.

Fundamental to current economic theory and practice is, therefore, the need to examine how the economy can be structurally *remedied*. What is in demand is an adjusted/reformed economy in which institutions and practices enable and reward more satisfactory values. The collaborative economy has demonstrated that such rewards and structural change are possible in the twenty-first century, but more intentional structural interventions have to be initiated collaboratively by all role players in the economy.

This will be troublesome unless a *consensus economic ethos* can be established that is able to guide/steer past the tension between the moral ecology presupposed by responsible capitalism and the kind of amoral world in which it operates today, which it also helps to generate. What might assist, as a starting point, is to define the *common enemy*, so to speak.

The reality we are facing is that we have an economic problem way beyond what the global lockdown brought about. The following six points describe key facets of this problem. The current economy is

- destroying ecosystems and contributes, in effect, to breaking down social cohesion;
- largely out of sync with social norms; showing tendencies to becoming a law unto itself (which result in various kinds of injustices, unfairness, poverty, inequality, and deprivation);

- master, and not servant, of humanity (resulting in a lack of accountability, debt traps in the financial system and capital that dominate the other factors of production);
- inflexible in its profit-drivenness and consumerism while cultivating opportunism on both the supply and the demand side of the economy, with adverse, exploitative effects;
- infatuated with money and markets (thus misleading partakers as anything of *value* is measured only in monetary income terms rather than well-being and quality of life); and
- crisis-prone and inclined to systemic failure because it rewards and incentivises the wrong (e.g., high risk) actions and penalises very often right (e.g., ethical) behaviour.

While everyone might not agree on the severity of the problems inherent in the economy, as pointed out above, most would agree, if they are honest, that these points (although they could be described differently) comprise the *elephant in the room*. Perhaps what would make the picture even clearer is stating the hard facts of our current economic situation:

- We are overconsuming and overproducing beyond our ecological limits.
- Economic growth has reached certain limits (saturation levels, called “secular stagnation”).
- Economic sustainability requires global economic justice (which is still mostly absent).
- We need fair profits, just prices and better resource allocation/distribution (to get a fair share; what the fair share is, is not the crucial matter, but the fact that it is considered is).
- Capitalism has become self-undermining and, in some cases, destructive without a proper *moral compass* to regulate it, having insulated the science against moral convictions.
- Just as no economy can grow or thrive without law and order, so it cannot create opportunities for all without a proper ethos (or basic ethical framework people commit to).

To answer the question of why we need ethics in economics, it is clear that the answer is because it is largely *absent* while it is really needed. Reforming capitalism from a moral perspective (and a structural perspective) is significant so that “it can become a morally steered servant rather than a cruel, amoral master”.⁶⁴² Yet there are more reasons for *including* ethics/values/morality in the economic equation, as it were. Note first that the inclusion of an ethos is part and parcel of

inclusive economics, as the name “inclusive economics” also reflects the essential economic *goal* to work towards (in a qualified context, of course, since not everything can be part of inclusive economy).

The problems and the facts above confirm that drastic economic change is needed. Significantly, all of them point to the need for *parameters*, but those that need to be internalised (not just externalised through regulation). The internalisation of parameters is called “accepting virtues”. The fact is, economic renewal starts on the inside of a person since ethical behaviour is a necessary building block of the economy.⁶⁴³

More comprehensively, it is not just about having economic participants behave more morally (because they want to, not because they have to). It is about establishing a new economic ethos in the *system* of the economy, i.e., how it functions. Unless it is both internalised in persons’ economic interactions and internalised in the economic system, such an economic ethos or general, unified moral code will be superficial and unmaintainable.⁶⁴⁴ Systemic change should, in tandem, also be addressed through structural changes in the economy (e.g., to eradicate systemic poverty). On the internalisation issue, what is needed is both *critical mass* (e.g., through economic collaboration; setting new standards together) and a *deep reflection* on a personal level on what is fundamentally wrong in humans’ engagement in the economy.

Here is the irony: At the heart of the human problem in the economy is the fact that *we get used to things*. It’s an innocent problem, causing us to be unaware that it is or could be a problem, or at least something we must pay attention to.⁹

To explain: When we get used to the things we have, we, in most cases, want more/new things since the excitement wears off (not of everything we have, of course, but of many things we have).⁶⁴⁵ When the rich want more, they can get it (and much more) because they can afford it (often at others’ expense who are unable to compete or unable to get the same benefits as the rich). The poor also wants/needs much more, but they cannot afford it, so they keep getting worse off, at least by comparison, which increases inequality.

The central issue here is how we all *perceive* our needs. We tend to think we need more things (assets and money). What we need more,

9 The growth obsession is reflected on the demand-side of the economy as an obsession with new things, while on the supply-side it is reflected by the obsession with more (more profits, more production, more assets, more control).

perhaps, is rather functional, i.e., to *manage* our resources better. By getting more things (there is nothing inherently wrong with that), we try to fill a *void* by feeling excited/satisfied by the new *thing* but often neglecting the management (*nomos*) of our resources we already have.⁶⁴⁶

Many times we don't realise how much we hoard. Once we do, it presents an opportunity to share/sell our excess resources with/to others (as in the resource economy). The collaborative economy has shown that *that* (and in other contexts) can be even more rewarding than buying. The question is, why? Because it has a *transcendent effect* on people, being part of something special, fulfilling and significant (to others, not just ourselves). That is something one can't get used to.

What could bring a shift in our thinking is understanding what *stewardship* really means. It is more powerful than ownership and control, although it does not seem so. That is why it must be *discovered*. Notably, the understanding that it creates also brings a healthier balance to the economy in terms of economic behaviour, which is necessary.

Let me explain. Stewardship, in economic terms, stems from the Greek word *oikonomos* (stewardship of the household (*oikos*)). The focus of stewardship (management) is on organising and optimising resources. The skilful balancing or logical ranking/placing of resources may stimulate inherent creativity that is in every human being. But because we are in a consumer-capitalist society that does not only *have* a market but *is a marketing society* with a marketing mentality driven by market forces, what is utmost in our minds when it comes to resources, is buying something new.⁶⁴⁷

Buying means ownership, which means instead of having a stewarding mindset, we have an *ownership mindset*. This is in and of itself not immoral, of course, but it tends to influence our economic motivation towards only instant gratification, thus creating scope for ethically undesirable behaviour.⁶⁴⁸ When ownership is our main focus (again, which is not wrong), the *weight* that comes with it rests on our shoulders (e.g., credit card debt, maintenance requirements, repairs cost and control hassles). Despite the blissful short-term pleasure of buying, ownership very often has a burdening/draining effect on us, eventually.

When *stewardship* is our main focus, the burden is inherently lighter due to the potential to switch ownership and/or collect an extra income and/or pay off debt and/or rediscover things we forgot about and maybe exchange. By shifting the *main focus* from buying

to access (or more creative organisation), our awareness of others shields us from selfishness and gives us a *new motivation* to be part of something greater than ourselves. This is what the collaborative economy has proven.

It also starts redefining what wealth means. In a collaborative economy, your network becomes your *net worth*. Wealth is then not defined by your bank balance or your assets (what you own) but by what you have *access* to in your network.⁶⁴⁹ The linear economy also functions on networks, but for a different purpose: what it means for you, not what you mean for it. The access economy is the opposite, which brings the transcendent effect.

For the capitalism of today, the poor seem to be the last concern; the collaborative economy turns this mindset around, which creates more opportunities for *inclusion*. Wealth then becomes a means to an end, not the end in itself. Money becomes a function/mechanism, not the end goal.

Let us be brutally honest: when money is the goal, greed is a natural result, which is arguably the main cause of severe economic inequality and crises. Enough is (then) never enough. But when viewing wealth holistically¹⁰ and in a network context, collaboration is what *adds value*, not increased self-interest.⁶⁵⁰ True wealth then lies in harnessing the diversity of qualities/abilities available (have access to), adding to the common wealth. Even at a global level, as Jeffery Sachs points out in his book *Common Wealth*: “Our challenge is not so much to invent global cooperation as it is to rejuvenate, modernise, and extend it.”⁶⁵¹

We tend to think that collaborative models will work better in smaller contexts, where everyone knows each other, like in a small town or community. But actually, its real potential is revealed in the larger, global context. James Surowiecki explains it well in his book, *The Wisdom of Crowds*, how harnessing the crowd can lead to better decisions.⁶⁵² The collaborative economy’s many peer-powered platforms create diversification at the decision-making level. For instance, a P2P insurance platform allows many people to make a large number of decisions, each of which is of very little financial consequence if mistakes are made.

10 Holistic wealth refers to the well-being of the *whole* rather than only what is reducible to money, and it includes many types of capital (e.g., social capital). It relates to Principles 2 and 3 of *Regenerative Capitalism* (Fullerton, 2015).

In another context, everyone would benefit from the robustness of distributed networks of production, such as the over a million small businesses on Etsy dispersed around the globe.⁶⁵³ There is a parallel for this robustness or high *fault tolerance* in a P2P computer file-sharing service like BitTorrent. For example, if someone spills coffee on their laptop while it is serving its file, the impact, on the whole, is limited since the same content is served from a *swarm* of other laptops around the world. The distribution of economic activity helps to reduce another risk factor which contributed to the GFC: the risk of concentrating power in the hands of only a small number of people.

Evidence of such a concentration of power was provided in a study done in 2011 by complex systems theorists at the Swiss Federal Institute of Technology in Zurich.⁶⁵⁴ From the Orbis database, they identified all 43 060 MNCs that were listed among the 37 million companies and investors worldwide and the share ownerships linking them.

Mapping the structure of economic power, they then constructed a model in which companies control others through shareholding networks, together with each company's operating revenues. They found that a core of only 1 318 companies (less than 1%) with interlocking ownerships are part of the *control network*. This relatively small network, mainly consisting of banks, clearly has disproportionate power over the global economy. In fact, 1 318 collectively own through their shares the majority of the world's large blue chip and manufacturing firms, the *real* economy, representing in total about 80% of global revenues.⁶⁵⁵

When they further untangled the web of ownership, much of it could be traced back to a *super-entity* of 147 even more tightly knit companies; all of their ownership was held by other members of the super-entity, that controlled 40% of the total wealth in the network. The top 20 included Barclays Bank, JPMorgan Chase & Co and the Goldman Sachs Group. Of grave concern is that, in effect, less than 1% of the companies were at that stage able to already control 40% of the entire network.⁶⁵⁶ The structure of the control network of MNCs affects global market competition and financial stability, posing serious systemic risk for the global economy.

Since most of these banks' control over the economy is through debt and its corollary effects (see Trainer, 2014), the collaborative economy can reduce consumer debt by giving people access to expensive assets like homes and cars that are usually bought on finance.⁶⁵⁷ It can reduce the amount people spend beyond their means and help in the urgent work of *deleveraging* the world economy. Contrary to the

bankers' approach, Bruno Roche and Jay Jakub highlight that "we may now, in fact, have a once-in-a-lifetime opportunity to reposition business as a restorative power for healing the global economy; an engine for profound positive change for the many".⁶⁵⁸

In view of the struggle to recover economically from the devastating COVID-19 pandemic, this is tremendously significant. They further state that a new (inclusive) model for business is required that leverages the principle of *mutuality* in business (the sharing of benefits) as a driver of value creation.

Such a model has to operate in a way that simultaneously promotes sustainable, profitable business and wider benefits in the form of human, social and environmental well-being. It should mobilise and enhance visible and concealed riches in the many ecosystems in which businesses operate, beyond the legal boundaries of the company and beyond financial capital. Roche and Jakub, having been at the helm of the MNC, Mars Inc, underline that *it has to be*

a model that doesn't reject capitalism outright, but rather leverages the power of capitalism, encouraging (not discouraging) the concentration of the different forms of capital not just in the hands of passive shareholders or super-active traders as is the case at present, but rather in the hands of business leaders and entrepreneurs of a *new kind* who have the talent and sense of broader purpose to bring prosperity to the many rather than to just the few.⁶⁵⁹

This is what inclusive business can do. Staying true to such a worthy ethos, the healing power of inclusive business can then contribute to meeting arguably the most pressing need in society, that of affirming and restoring *human worth* based on moral principles. Millions upon millions of lives have been desolated by the effects of the global lockdown, making it not only *a good thing* if the economy embrace shared values but an urgent necessity. Prahalad and Hart state: "When the poor are converted into consumers, they get more than access to products and services. They acquire the dignity of attention and choices from the private sector that were previously reserved for the middle-class and rich."⁶⁶⁰

In *The Value of People*, Chapter 2 of his book, Angel Gurria, a former OECD Secretary-General, highlights that "in the global knowledge economy, people's skills, learning, talents and attributes

– their human capital – have become key to both their ability to earn a living and to wider economic growth”.⁶⁶¹

The return on investment in human capital on a broad scale has never been as high as today, which makes the opportunity to contribute to human worth exceptionally significant. The attentiveness to this, and the sensitivity needed, require a full appreciation of an *economy of care*.

A last and important reason for a *common economic ethos* is, ironically, to guard against a utopia-seeking mindset. The folly of desiring an economic utopia is that it is destined for disappointment because it is too idealist, based on wishful thinking (too dreamy), not in touch with realities on the ground, and unconnected to the truth of the matter.⁶⁶² The mere size, speed and complexity of the global economy suggest that it is near impossible to see a complete system overhaul or an extreme restructuring. History has proven the picture of a *perfect world* with a perfect economy as folly; there are too many uncontrollables. Enlightenment philosophers have tried desperately to suggest that societies’ problems may be permanently solved through nothing more than the application of human reason and natural benevolence.⁶⁶³

Today we know better. As the Mao Zedongs and the Hitlers of this world have shown, it does not take much for a well-intentioned utopia to become a feared and despised dystopia. The moral relativism of postmodern capitalism and neoliberal globalisation tend to make the same utopian promises.

On the contrary, a *virtues-orientated* approach to the economy is focused on correcting the errors of the past. Similar to a patient with a skin disease, a remedy needs to be applied, which is not a “cure-all (panacea)” but forms part of the healing process. The objective is not to replace capitalism with a completely different economic system but to overcome the structural and systemic *diseases* (deficiencies and moral issues) that plague it.

The starting point to permeate the system is a basic economic ethos that is generally accepted to guide the *healing* process. Rather than formulating a (utopian) quick fix to the problem that took generations to create, this approach seeks to gradually but intentionally transform our economic system. The virtues approach is, therefore, necessary to prevent unrealistic idealism.

The third important question is: how can ethics be applied in economics without entangling the science in subjective value judgements? In view of the reasons given why we need ethics in

economics, there are two tensions here that must be *balanced* to answer this question: One is the fact that economic behaviour must be put (back) under social control, i.e., made subject to the same set of ethical rules that are supposed to govern all other human behaviour and interaction. The other is the fact that to protect the integrity of the science, objective analyses and methods cannot be ruled by subjective demands.

While this now sounds like two irreconcilable opposites, in truth, they are necessary poles at opposite ends, like two magnets, balancing the direction of the economy. The answer to the question is, therefore, to have a fair share of both: meaningful ethics and objective, methodical reasoning.

In addition to this, however, is the need for a clear *common goal* and *vision* for the economy. The SDGs is an evolving framework that could fulfil, in part, the need for a common goal or shared goals. In terms of the vision, the proposal here is that of an inclusive economy. The picture one can sketch is that of *envisioning* a highly efficient, eco-friendly and humane form of capitalism where individuals, businesses and policy-makers make economic choices consistent with a shared economic ethic.

It is virtuous capitalism, inclusive capitalism, which keeps creating *access* to wealth-generating possibilities and to the social benefits that should inherently form part of the common good. For this to happen, sustainability, justice, social cohesion, strong incentives for collaboration, and quality of life must become the determining *design principles* of a new, inclusive economy. This opens the way for the right kind of synergy.

Arguably the best illustration or context for a *shared economic ethic* is the household concept of a family model. This makes sense, given the origin of the word for economics: *oikonomos* (which means management of the household). The essence of the family dynamic is a mutual concern, i.e., taking *care* of each other. This is a simple principle but lays the foundation for an economy based on shared virtues. A simple but smart, localised community focus also illustrates this same *family principle*. Collaboration is central because of high interdependency.

Take the following example: All would know that only if both a town's *technical* and *social* systems are working well will they as individuals be provided for well. To live in such an economy (good *structures* and *cooperation*) where the synergistic dynamic multiplies goodness and welfare, the individual would enjoy being a good

contributor, a nurturer and a good citizen (i.e., economic participant).⁶⁶⁴ Such altruistic benefits are the result of the main focus of the economy turning from self-interest (benefits for me) to *shared interest* (benefits for everyone); then, there is arguably more for everyone.

Sharing these advantages strengthens a community (even the global village) because the communal approach to wealth accumulation is presumably better. It requires a collectivistic mindset but starts individually. Stimulating common wealth: Collective well-being has exponential growth potential. When the community is more important than the individual, the *common wealth* will multiply.⁶⁶⁵

Lastly, and actually, it need not even be said anymore because *action* is what is really needed; it is imperative that we develop this *new economic ethos* based on a general, unified moral code and virtue ethics. A collaborative economy focused on inclusivity should have a maxim that says, “*No-one is left behind*”. With this in mind, an action-orientated new economic ethos could include:

- Eradicating greed (and opportunities for greed) from the (new) economic system.
- Building an economy of care through active citizenry and aligning economic restructuring with the principles of especially the honeycomb model (a unique form of organic growth).
- Embedding the nature/character of *mutuality of benefits* (e.g., through inclusive business) in the economy by moving from the dominance of self-interest to shared interest (discovering new economic value in the shift from self-centeredness to selflessness).
- A shared commitment to invest in community/country common wealth and discover the worth of value co-creation (e.g., prosumers, which is one among many examples of co-creation).
- Tangible efforts by all economic participants to steward resources in a way that keeps creating new opportunities for new entrants, thus adding value to the *sum of the parts*.
- Fostering innovation and out-of-the-box thinking for the purpose of creating increased access to the economy and for enhancing circular (eco-friendly) economic processes.
- Building and restoring *trust* in the economy (and through the economy in society) to re-emphasise human worth, human dignity and human value; building social capital as much as (shared) financial capital and keeping human capital in balance with natural capital.
- Moral and principled commitment towards redistribution (building a redistributive culture) and equal access to the economy

- to improve efficiency and ensure that *everyone has enough* (e.g., no more hunger, thus fully eradicating poverty through co-creation).
- Entrenching the family principle or *family model* as the prime economic motive and basic formula for how to restructure and *re-value* the economy (i.e., new values for new value).
 - Shaping a more *ethically desirable* economy fully accountable to society and regulatory processes (without overprotecting nor controlling the economy).
 - Organically but strategically, ushering in a *new economic culture*: innovative community principles for the global village (balancing simplicity and sophistication).
 - Protect the economy against *itself* by integrating these shared values and actions in *every fabric* of the economy, and put in place inclusive monitoring mechanisms, allowing all to assist, thus aligning the economy with the inclusive principle of ‘cooperate to prosper’.¹¹

Conclusion

The collaborative economy is a unique but influential economic model where commonly available technologies and resources enable people to get what they need from each other. Ownership and access may be shared between people, start-ups, cooperatives and/or MNCs, i.e., shaping P2P commerce.⁶⁶⁶ Yet it is also more than that.

Through inclusive business models, communities are transformed, or new ones created, based on shared values that have a *transcendent effect*. It gives new meaning to the economy as the focus shifts from “what’s in it for me” to “how can we all benefit”. This is a classic Ubuntu principle. It resonates strongly with Bruno Roche’s explanation of *repurposing business*: “...to develop profitable solutions for society and the environment (not profiting from creating problems).”⁶⁶⁷

This now poses the question: Is collaboration taking place at the expense of competition? The simple answer is no. Competition is just as much a driving force in the collaborative economy as in the conventional economy, but it, importantly, involves a *new balancing* of opposites. The objective is different. Competition becomes part of an ecosystem, a network where it is encouraged (for efficiency and lower

11 Note that these points are not exhaustive or a panacea; they are merely a practical starting point for economic change.

prices) alongside collaboration (for cohesion and attaining inclusive economic goals).

Most significant about it is how influential the collaborative economy has become in a very short space of time (in less than ten years) and its tremendous growth potential. This is even to the point that it might soon *outgrow* the traditional economy as a new economy within the old economy.

It is powerful because it is more than transactions and trading; it is a *new economic experience* that especially the millennials love. It brings us into the right relationship with one another (Principle one of *Regenerative Capitalism*) and seeks balance (Principle eight) to ensure systemic health. Valuing harmony: the economy can be a *force* that helps social, ecological and wealth creation systems operate in a healthy balance.

One of the next steps for the collaborative economy would be something of a new Social Compact taking shape organically to replace the current outdated Social Contract that is *supposed* to exist between governments and their people. Trust is being restored through the collaborative economy, but it will become necessary for all role players, including the government, to *commit* themselves to a partnership with the people and the business community and be held accountable.

Active citizenry becomes vital so that an inclusive economy is *complemented* by inclusive governance. Communities getting organised to participate in governing local municipalities based on best practices in good governance is part of redirecting not just the economy but societies as a whole, building healthy and resilient communities.

In terms of the economy, what will help create an acceptable framework for commitment is a common economic ethic based on shared values and a general, unified moral code that can shape a sort of *best practice* for the economy (adjustable, of course, to different contexts). This has been outlined in detail in this chapter to help *repurpose* the economy.

A final and important point on this is that what implicitly needs to be addressed through an inclusive, collaborative economy anchored in a good moral framework is turning not just poverty but a poverty mindset¹² (which is more integral to a person and/or a system), into

12 Something worse than poverty itself is a poverty mindset or a *poverty mentality* because that's ultimately what keep people in a poverty trap, i.e., poverty cycles they can't get out of (either systemically or circumstantially induced). A poverty mentality is not so much about

a *thriving mindset* by creating access and opportunities for productive participation in the economy. For this, strong collaboration between civil society, government and the private sector is required, i.e., making a *shared commitment*. The business sector, though, is key in this because it propels businesses into the space where they can perform a much-needed healing and bridge-building function in society.

Financial inclusion, specifically, has a crucial role to play here in light of the estimate of the IFC that more than two billion people around the world are still being unbanked.⁶⁶⁸ Financial inclusion means the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society.⁶⁶⁹

This is in contrast to *financial exclusion*, where those services are not available or unaffordable. Inclusive financing is aimed at the inclusion of more people under the umbrella of the financial system to strengthen financial *deepening*. It enables individuals and businesses to get access to useful and affordable financial products and services that meet their needs: transactions, savings, payments, insurance and credit, delivered in a responsible and sustainable way.⁶⁷⁰

Financial inclusion has been identified as an enabler for seven of the 17 SDGs, but in many developing countries, where it is arguably most needed, the digital divide and market-related barriers still need to be overcome.⁶⁷¹ Commercial banks are encouraged, based on the principle of equity and inclusive growth, by central banks and international financial institutions to implement financial inclusion programmes focusing on financial literacy, credit counselling and on employing two categories of intermediaries: business correspondents (BCs) and business facilitators (BFs), to expand their business.⁶⁷²

Inclusive banking in the form of *banking the unbanked* also involves collaborative community banks, village banks and stokvels in the microfinance industry, enabling groups and communities to have banks that the community owns and manages. This is a relatively unexplored area which holds significant potential for *decentralising* the financial system, thus stimulating local economic development and inclusive growth.⁶⁷³

Another new area of development, also based on collaborative economy principles, is under-utilised cash in people's bank accounts

economic deficiency as it is about the *acceptance* of meagre possibility; it is accepting a limitation and being *governed by lack*. It keeps people trapped in a lower form of being with little hope. What people believe about themselves, and the potential of their circumstances will either defeat them or inspire them.

that sharing economy businesses can provide a higher return on. P2P lending sites like Funding Circle boasts an average return of 6.1% after fees and debts.⁶⁷⁴ US P2P lender, Prosper, offers 8% interest.

While many of these lenders extend unsecured loans, Germany's Auxmoney lets investors make secured loans, sometimes with the borrower's car as collateral. P2P lenders have the benefit of avoiding the large overhead costs of running a bank, i.e., thousands of employees and hundreds of branches. LendingClub, which now lends over 350 million USD every month, assigns borrowers a credit grade that determines the level of interest rates that lenders will receive as funds are kept circulating to build wealth (including common wealth).⁶⁷⁵

Two of the most significant areas/aspects that *separate* an inclusive business from the average business are its active and persistent involvement in inclusive innovation (e.g., making healthy and affordable products and services available to the poor); and the co-creation of opportunities (with the poor) by "removing economic, social, ecological and geographical barriers; this enhances the social and economic well-being of the disenfranchised BoP".⁶⁷⁶ In this regard, Siobhan Kelly and others identified four principles that make a business model inclusive:⁶⁷⁷

- Inclusion of existing value chain actors (use established relationships to include the BoP).;
- Inclusion of less endowed actors (involve the most committed and capable first).
- Inclusion of diverse market outlets (identify additional market outlets for networking).
- Inclusion of the right partner mix (prevent overdominance; give proper space to all partners).

Something not emphasised enough is how inclusive business contributes to decreasing economic inequality and helps ensure that the benefits of growth are widely shared.⁶⁷⁸ Actually, research is showing that, in a reciprocal context, more equal societies are beneficial to business and its ecosystems through higher political and social stability; more engaged and productive employees; more sustainable and productive engagement with the supply chain; stronger reputational capital; appealing to key demographics, such as reducing social and economic inequality (which currently ranks as the main global concern).⁶⁷⁹

In this way, a new kind of *synergy* is emerging. As businesses and individuals innovate to find a place in the collaborative economy,

opportunities start multiplying, and existing businesses stop being cannibalised.⁶⁸⁰

This economy holds the promise of democratising consumerism as people's ability to consume goods and services is not constrained by their purchasing power. The collaborative economy is not merely a trend; it is spurred on by fundamental economic factors and the digital revolution. *Synergism* can be expected to become the norm. It lays the foundation for an access economy where, as Trainer describes:

To give, care and contribute brings out in others appreciation and a desire to reciprocate, which rebounds to enhance the welfare of the giver, directly through appreciation and reciprocation, and indirectly through contributing to the general climate of a caring, nurturing society.⁶⁸¹

Important insights from Joseph Pearce's book, *Small is beautiful*, indicate a number of what one might call *balancing factors* for reforming the economy. Emphasising simplicity, sensibility and the significance of the micro context as a model for the macro context, he refers to *distributed ownership*, which is relevant to the collaborative economy.⁶⁸² With this, Pearce means to say that the ownership of modest amounts of property and land which does not oppress others must be an integral part of *healthy* economic life and stability. He, in fact, states that "there can be no independent citizen without private property".

In the same breath, land embodies moral as well as economic values for human beings. This has implications for both private land ownership and land redistribution, calling for a *balancing* of interests. Even land redistribution must be done with caution to ensure that land is sold to productive small farmers/holders, preventing a concentration of power in the hands of the rich. Limits to the unchecked concentration of capital (e.g., no monopolies or unfair competition) are vital. Economies of scale complicate matters, so *careful* guiding is necessary (e.g., "smallness within bigness").⁶⁸³ *Economic sanity* should, though, prevent an overregulated society.

As much as every type of small private enterprise is to be encouraged and protected, so the workers should make it their aim to be fully involved in the organised life of the firm by which they are employed; the employees provide *access* to meaningful involvement and, if possible, shared ownership. In this way, social justice is prioritised along with entrepreneurial fervour.⁶⁸⁴

The *key* is not to put secondary considerations/complexities before primary realities. Principles that are difficult to implement should not be dismissed as unworkable but should be made as workable as practically possible. Importantly, at the *heart* of economic life must be human needs and human aspirations; a humane economy where people can express themselves in a natural environment *free* from alienation by dominant economic actors.

By the same measure, innovation in a collaborative and distributive context must keep humans at the centre, not technology. Brian Arthur points out: “We are creating an intelligence that is external to humans and housed in the virtual economy. This is bringing us into a new economic era – a distributive one – where different rules apply.”⁶⁸⁵

While this is an exciting innovation, it puts humans at risk in terms of not leading technology but technology leading us. This same risk is evident in the 4IR and the IoT’s march towards a technological *singularity* (i.e., combining genetics, robotics, AI and nanotechnology (GRIN)). Although the digital revolution has created a kind of secondary economy, it is strongly cautioned that it be in step with economic evolution (structurally and ethically).

In terms of the collaborative economy, sharing economy and access economy, one significant *challenge* to overcome is the need for new regulations and rules being created by the popularity of digital crowd-sharing platforms.⁶⁸⁶ When the market is being disrupted, the authorities react. What they consider protection limits the expansion of these new types of economies. For instance, in 2016, the US signed a law imposing fines for advertising home rentals that violate New York’s short-term rental rules. In the same way, Uber and Lyft have faced increasing *legislative* problems because of wheelchair accessibility, aligning regulations with the taxi industry, state or local oversight, and driver requirements. Without questioning the need for positive/constructive regulation, these are, however, considered *growth pains* as researchers and practitioners are convinced that the development of such alternative economies, especially in the 4IR era and during and after the post-COVID-19 recovery, reveal unexpected economic benefits.⁶⁸⁷

The capitalism we have is the capitalism we have chosen, which means we can *choose* differently. Unlike often thought of, this sometimes-brutal economic system is not a naturally occurring entity to which we must accommodate. It is also commonly thought that the

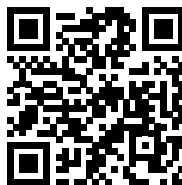
economy we have is the endpoint in an “evolutionary” process that has weeded out all the rest (e.g., *The End of History* by Francis Fukuyama).⁶⁸⁸

Capitalism is a subject, not an object. As Barnes contends, “It possesses no *hypostasis*, no human essence, and imposes no will, but it does reflect the values of the culture in which it resides.”⁶⁸⁹ Remediating capitalism rests on the choices we are about to make.

As much as we need strong economic recovery in the post-COVID-19 period, we need to pay serious attention to and include strong ethical considerations and changes in *how* we recover. The stronger our internal *rudders* are (ethical, economic life), the less we need external regulation. There is opportunism at the heart of capitalism (that is, its strength and its weakness), which needs to be guided by good moral and ethical virtues, i.e., a *consensus economic ethos* based on universal truths. If we do not integrate such a meaningful ethos in the way we restructure the economy going forward, the path we are on cannot but lead to self-destruction.

We have no choice but to *change course*. That is why Nelson Mandela stressed: “Overcoming poverty is not a gesture of charity, it is an act of justice.” Morally taming capitalism so as to push it into being less of a master and more of a servant has now become non-negotiable. As the rapid emergence of the collaborative economy has shown, the current moment in history presents the perfect opportunity to make the necessary changes to the economy, which are long overdue. May the economy become the instrument of healing in society, which it is capable of.

Scan the QR code to access a video on this chapter by the author.



Chapter 6

Inclusive economic policies and institutions

“Do not look the other way; do not hesitate.
Recognise that the world is hungry for action, not words.
Act with courage and vision.”

Introduction

In a general sense, the goal of economic policy is to maximise long-term societal well-being in an equitable and sustainable manner. How is it then that neoliberal policies advocated by international institutions and implemented by governments have resulted in more, rather than less, economic crises? It is arguably because by liberalising the economy to the extent that policy-makers have, it inadvertently promoted/fostered economic *exclusion*. Corporates and high-income groups benefit proportionately more from liberal policies than middle- and lower-income groups.⁶⁹⁰

The mistake by governments is not liberalisation per se but the lack of intentional economic inclusion as a *balancing factor*. The Millennium Development Goals (MDGs) and now the Sustainable Development Goals (SDGs) are steps in the right direction, but truly inclusive and sustainably inclusive economic policies are crucial for deepening and widening inclusion.

Prioritising equal opportunities, economic safety nets and pro-poor policies are part of the inclusion agenda, but the real change is formulating policies that can integrate economic inclusion *organically* into every part of economic life without having to force it. That's the Ubuntu way. Weaving it into the economy's fabric is the key but also an *art*. New economic thinking and mindsets are needed as much as new approaches, commitments and a new end goal.

All the other criteria of an inclusive economy can be met, but the most fundamental to changing course and steering away from the economy's current self-destructive path is the use of policy. You need *political will*. Otherwise, a vacuum remains that will be filled by self-

serving agendas. Economic policies that are properly implemented for economic (not political) reasons are most important to sustainable change, not just in the economy but in society as a whole.

Inclusive policies that are in sync with the needs of the people and *in touch* with the critical structural changes required to make the economy more inclusive are ultimately *the* determining factor in establishing an economy that works for everyone. Alongside that, you need institutions¹ that are inclusive and committed to economic inclusion to the extent that that becomes integral to why they exist. Everything they do in the public and private sector must be intentionally geared toward economic inclusion.

Research has shown that unless there is an undivided, all-embracing institutional commitment to this goal, it will eventually be relegated to an *add-on* priority.⁶⁹¹ The economy cannot afford this. This is why this chapter will explore the priorities, processes and changes involved in shaping inclusive economic policies and institutional changes needed to build an inclusive economy.

Neoliberal capitalism neglected to make this a primary priority, and now we see the fruit of that, having even intensified after the global financial crisis (GFC). And just as *some* economic recovery gained momentum (albeit skewed), the COVID-19 crisis resulted in economic inequality and exclusion becoming a real *monstrosity* in local economies and at the global level. While a grave reality, actually, the fundamental problem with supercapitalism is simple: it overpromises and underdelivers. In the words of Yale Professor Volf Miroslav, it is an economic system that tries to “turn stones into bread”.⁶⁹² It tries to do *magic*, but it is a human endeavour that sadly neglects its humanness.

Putting the latter at the centre of the economy requires a combination of political will, corporate repurposing and civil society refocusing. The key priority that will help with this is the word *inclusivity*. The moment policies, business and civil (economic) behaviour start to truly prioritise inclusivity in everything they do (formulate and execute), it rebalances and *re-centres* the economy to be better able to work for everyone. Inclusivity is not a *magic bullet*, though, but it is the great missing link in how we go about economic life and how

1 Major institutions of society include: the state, the market, science and technology, and education. Institutional reform to ensure greater *inclusion* refers to required institutional change in these areas so that the trusted organisations in these domains become more inclusive themselves, plus they promote and entrench a culture of inclusivity in society.

the economic system should function. It can operate without it only for so long, and then it will cease because the essence of economics (*oikonomos*) is about inclusion.

Running the economy for tomorrow as well as today will require a wide range of policy changes. “The top priority must be ensuring that we get a true picture of long-term economic prospects, with the development of official statistics on national wealth in its broadest sense, including natural and human resources,” according to Diane Coyle.⁶⁹³

Savings and investment will need to be encouraged over the typical consumption patterns in supercapitalism. Above all, governments will need to engage citizens in the process of debate about the difficult choices that lie ahead and rebuild a shared commitment to the future of our societies. Sustainability is now most important, which demands *changes*: from growth to inclusive growth; from development to inclusive development; from business to inclusive business; and from neoliberal economic policies to inclusive economic policies.

A reasonable definition of a capitalist crisis is a situation in which all available economic policies seem only to exacerbate the problem they are intended to alleviate.⁶⁹⁴ In this regard, Coyle states: “Our economic situation requires consumers and governments to both spend more and spend less. Resolving such situations requires a significant and arduous rethinking of core precepts of economic policy and theory.”⁶⁹⁵

So, while debates may continue about when an economy is getting more inclusive or less inclusive, the *primary question* that needs urgent attention, which is the main focus of this chapter, is: What kinds of policies would make the economy more inclusive? Policy reform and policy change are considered but also new policies tailored to address people’s needs so that a foundation is laid from which an inclusive economy can organically take shape.

Key policy objectives, policy choices, and inclusive processes for policy formulation are identified as mechanisms for facilitating crucial *synergies* in the economy to ensure coherent inclusivity. The aim is to transform the goal of the economy from simply trying to produce more goods and services (i.e., making more money) to enabling people to live a better quality of life, have higher levels of well-being, and be part of genuine progress in the economy.

Feasible policy strategies, policy targets and policy interventions are examined to address burning issues related to economic inclusivity. For policies to be effective, institutional support are vital for the

durability of policy mechanisms that are implemented over time and through different political cycles. The chapter is structured in a way to *highlight* key policy decision-making related to the five criteria of an inclusive economy, but it starts with first an inclusive economy matrix and then by defining a new economic agenda.

Inclusive economy matrix (IEM)

Before delving into the policy aspects, context is needed for the overview or broad picture of how economic inclusivity is perceived in this investigation. It is not a complete framework and can still be developed further, but it gives a clear indication of the main elements and their interactions. It is described here as an *inclusive economy matrix* (IEM) and provides qualitative and quantitative indications of what must fall within the scope of inclusive economic policies. From this matrix framework, a new economic agenda can be derived as well as policy priorities.

As a starting point, the 2012 World Development Report on *inclusive green growth* emphasised something very important: “The way forward requires a blend of economics, political science, and social psychology – smart solutions to tackle political economy constraints, overcome deeply entrenched behaviours and social norms, and develop the needed financing tools.”⁶⁹⁶

This “blend” that the Report refers to speaks of the need for appreciating a *pluralism* in economics. This means that space is created for multiple frameworks of thought, theories and methodologies (orthodox and heterodox), preventing monism (single-mindedness) in economics and considering a broader array of solutions and proposals that are aimed to be more functional and effective while preserving the robustness of the discipline.⁶⁹⁷

This is important because a *too-narrow focus* may lead to misdirected economic policies and/or sub-optimal policy proposals that underappreciate potentially significant contributions from, for instance, behavioural and institutional economics, which are key building blocks of more humane (Ubuntu) economics. This enables us to start with a different conception of the human being, which is ontologically different from the singular and reductionist notion of *Homo economicus* (the perfectly rational economic actor). It supports the epistemological claim that economics would benefit from a pluralistic approach to economic theory and practice.⁶⁹⁸

New possibilities emerge when the field of economics is opened-up to other social science perspectives and ideas, allowing for a more comprehensive study of the economics of human well-being and for designing policies that truly puts the well-being of humans at the centre. Then, addressing issues of social equity and environmental sustainability is less cumbersome.

Providing further context to the IEM and bringing us closer to people's realities on the ground: the second step is examining the *reasons* why and how to redefine the economic agency concept. Economic relationships are part of the broader context that includes the political realm, society and culture, and the natural and built environment. In this context, the economy is understood to be the *instituted process* of scarce resource allocation by and to economic agents.⁶⁹⁹ This provides perspective on the roles that markets, politics and society play and how they *interact* in structuring economic processes and outcomes:

It entails the acknowledgement of instituted power relations that operate between economic agents at all levels, some of which are embodied in codified laws, rules and institutions and others of which are more deeply embedded in cultural values, norms, customs and beliefs.⁷⁰⁰

It is, therefore, not just relative prices that drive economic exchange but also *power differences* in resource and market access and control, cultural and social behaviour, legal rules about factor payments, production processes and product quality. This broadens the understanding that the economy is merely driven by market forces as, for instance, the unpaid or non-market economy also needs to be included, as well as significant parts of the resource-based economy and the sharing economy.

These include the private domain of the economy involving households and communities, where goods and services are often produced for free through voluntary work and where a more verbose concept of reciprocity operates. The *interdependency* between the unpaid and paid (monetised) economies, where the latter include both the formal and informal economies, are part of the same instituted economic process that involves a wider variety of economically productive people than is normally assumed.⁷⁰¹

Since aggregating for gross domestic product (GDP) essentially involves economic exchange relating to formally constituted

businesses, other productive agents in the economy are excluded, which have adverse implications for the fair allocation of resources and economic means. Significantly, economic problems need to be *solved* in the process of allocating scarce resources and optimising the quality of life.

Three interconnected domains can be identified in which the allocation of scarce resources is steered, together with their leading (but not exclusive) allocation mechanisms: As shown in Figure 6.1, these include the public sector (redistribution through policy); the private sector (allocation via market exchange); and individuals, households and communities (reciprocity and mutual support). These spheres are intrinsically connected through cross-domain decision-making, movement of economic agents (interchangeably and simultaneously), the flow of resources, institutions that regulate their behaviour, and the values embedded in those behaviours.

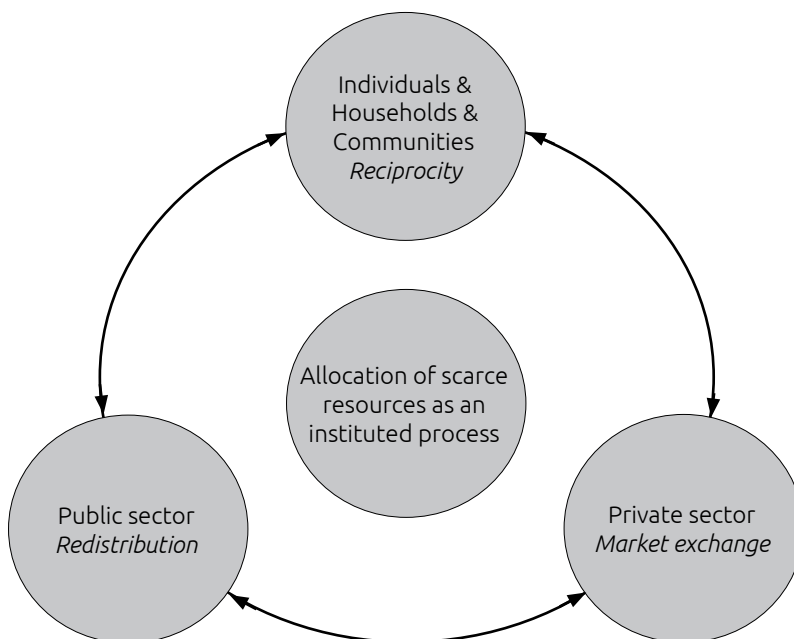


Figure 6.1: Primary allocation mechanisms in the three main economic spheres (Source: Pouw & McGregor 2014)⁷⁰²

Importantly, these three domains should be considered in unison and not be separated from each other when formulating policy, business models and collaborative partnerships. Building a *redistributive culture* starts with fully appreciating the interrelationships and the

new possibilities that are opened up through closer collaboration and innovative inclusion.

When considering economic agency, therefore, from such a pluralist perspective, the rationality assumption in economics should *not be limited* to self-interest. People's behaviour and decisions are influenced by social-cultural, political and economic institutions, which is symptomatic of how agency and the surrounding structure of institutions interact.⁷⁰³ Understanding this is important from a policy perspective because it is an indication of the possible effectiveness of policy. The latter is not just determined by how well formulated it is in terms of best practice or its successful implementation but also by how other economic agents respond, individually and collectively.

When, therefore, *redefining* economic agency, "economic agents can be thought of as purposefully striving to protect and improve their material and relational conditions and their quality of life", i.e., they take the initiative and make choices to pursue what they consider as quality of life for themselves and for those they care about.⁷⁰⁴ Human *well-being* is thus (more inclusive of) what economic agency is about, not just self-interest (as assumed by neoclassical theory).

Priorities and goals can also change, ranging from pure self-interest in one situation to family and collective well-being interests in other situations.⁷⁰⁵ Social identities, human capital, command over scarce resources, as well as political, social and environmental factors add to *fluidity* in economic agency. Together, all these propositions build up to the point where we can now present and explore the IEM as an illustrative framework for studying the economics of well-being and its related policy applications. Table 6.1 provides a summary, which will be explained.

As its point of departure, the IEM regard economic agents to be acting purposefully, ultimately in pursuit of their own well-being and that of others that matter to them, instead of assuming that only the maximisation of self-interest is what is driving supposedly *rational* economic behaviour. Viewing well-being in both individual and collective² contexts, which include any combination(s) of material well-being, social/relational well-being and personal life satisfaction well-being, the following definition of *overall well-being* is employed in the IEM: "A state of being with others and the natural environment

2 Collective well-being is regarded in the IEM as the quality of life of any specific group of people. This can be a household, a community or neighbourhood, a group of men, women, a social network, or an entire nation's population.

The Inclusive Economy: Criteria, Principles and Ubuntu

that arises where human needs are met, where individuals and social groups can act meaningfully to pursue their goals, and where they are satisfied with their way of life.”⁷⁰⁶

Table 6.1: Outlining the inclusive economy matrix

from: Allocation of scarce resources to:	Individuals (I)	Households (H)	Firms (F)	Social groups/ Communities (C)	Government (G)	Rest of the World (W)	Nett Savings (S)	Total Received
Individuals (I)	Allocation between Individuals	Hi= $f_i(Mh \cap Rh \cap Ch)$	Fi= $f_i(M \cap R \cap C)$	Ci= $f_i(Mc \cap Rc \cap Cc)$	Gi= $f_i(Mg \cap Rg \cap Cg)$	Wi= $f_i(Mw \cap Rw \cap Cw)$	Si	$U_i\{U_i, F_i, C_i, G_i, W_i, S_i\}$
Households (H)	Ih= $f_h(M \cap R \cap C)$	Allocation between households	Fh= $f_h(M \cap R \cap C)$	Ch= $f_h(Mc \cap Rc \cap Cc)$	Gh= $f_h(Mg \cap Rg \cap Cg)$	Wh= $f_h(Mw \cap Rw \cap Cw)$	Sh	$U_h\{U_h, F_h, C_h, G_h, W_h, S_h\}$
Firms (F)	If= $f_f(M \cap R \cap C)$	Hf= $f_f(Mh \cap Rh \cap Ch)$	Allocation between firms	Cf= $f_f(Mc \cap Rc \cap Cc)$	Gf= $f_f(Mg \cap Rg \cap Cg)$	Wf= $f_f(Mw \cap Rw \cap Cw)$	Sf	$U_f\{U_f, F_f, C_f, G_f, W_f, S_f\}$
Social groups/ Communitie s (C)	Ic= $f_c(M \cap R \cap C)$	Hc= $f_c(Mh \cap Rh \cap Ch)$	Fc= $f_c(M \cap R \cap C)$	Allocation between social groups/ communities	Gc= $f_c(Mg \cap Rg \cap Cg)$	Wc= $f_c(Mw \cap Rw \cap Cw)$	Sc	$U_c\{U_c, F_c, C_c, G_c, W_c, S_c\}$
Government (G)	Ig= $f_g(M \cap R \cap C)$	Hg= $f_g(Mh \cap Rh \cap Ch)$	Fg= $f_g(M \cap R \cap C)$	Cg= $f_g(Mc \cap Rc \cap Cc)$	Allocation between units of government	Wg= $f_g(Mw \cap Rw \cap Cw)$	Sg	$U_g\{U_g, F_g, C_g, G_g, W_g, S_g\}$
Rest of the World (W)	Iw= $f_w(M \cap R \cap C)$	Hw= $f_w(Mh \cap Rh \cap Ch)$	Fw= $f_w(M \cap R \cap C)$	Cw= $f_w(Mc \cap Rc \cap Cc)$	Gw= $f_w(Mg \cap Rg \cap Cg)$	Allocation between economies	Sw	$U_w\{U_w, F_w, C_w, G_w, W_w, S_w\}$
Nett Investments (N)	Ni	Nh	Nf	Nc	Ng	Nw	Allocation of investment	$S_i + S_h + S_f + S_c + S_g + S_w = N_i + N_h + N_f + N_c + N_g + N_w$
Total Expended	$U_i\{U_i, F_i, C_i, G_i, W_i, N_i\}$	$U_h\{U_h, F_h, C_h, G_h, W_h, N_h\}$	$U_f\{U_f, F_f, C_f, G_f, W_f, N_f\}$	$U_c\{U_c, F_c, C_c, G_c, W_c, N_c\}$	$U_g\{U_g, F_g, C_g, G_g, W_g, N_g\}$	$U_w\{U_w, F_w, C_w, G_w, W_w, N_w\}$		Collective well-being

(Source: Pouw & McGregor 2014)⁷⁰⁷

It may be that people place different emphases on the different dimensions of their well-being, but these are taken as a collective, i.e., a combination of all three. Together, individuals, families, communities, businesses and governments create societies that can be characterised by higher or lower levels of collective well-being.

The outcome or net effect of this depends on the *trade-offs* people are willing to make on behalf of their fellow human beings (and what they want to share as a collective) and the *synergies* stemming from a group/community's common wealth creation, norms and expectations. The improvement, maintenance and protection of overall well-being represents a heuristic understanding of decision-making procedures, which is parallel to the net effect of the trade-offs and synergies inherent in policy solutions. Awareness of this is crucial.

More specific, Table 6.1 provides analytical guidance as to the economics of well-being by using a matrix to explain the *integratedness* of economic inclusivity, which provides a frame of reference for

inclusive economic policy-making. The construction of the IEM is quite similar to an economic social accounting matrix (SAM).³

What makes the IEM different, however, is that it depicts both qualitative and quantitative flows of resources between economic agents.⁷⁰⁸ This change is in line with the pluralistic method and theory, which incorporates *inclusivity* (signifying a more comprehensive approach to the economy as an instituted process, appreciating a broader focus on well-being and economic agency). The functions contained in the matrix cells represent all possible interconnections between the economic agents and the *unspecified* variables in each of the three well-being dimensions outlined in Figure 6.1.

The matrix can be filled-in with variables and functions and applied at multiple levels of aggregation (micro, macro and international). The specification of variables and functional relationships then forms part of studying any economic problem. For now, we are only going to focus on the components of the model and how it works.

In the IEM, individuals (I) are identified, as well as: households (H), social groups/communities (C), firms (F), the government (G), net savings (S), net investments (N), and the rest of the world (W). All economic agents are both providers and recipients of resources, hence appearing both as column and row entries in the framework (reading the IEM from column to row).

The allocation of scarce resources in the economy via different types of exchange between economic agents can improve or reduce human well-being in its three dimensions: material well-being (M), relational well-being (R) and cognitive/life satisfaction well-being (C).⁷⁰⁹ All three are integral to Ubuntu. To explain by means of an example how the matrix works, we can consider the flow of resources between the individual and his/her household. As Pouw and McGregor explain:

The individual (I) contributes to the household (subscript h , so therefore Ih), (parts of) her/his material well-being (Mi), in the form of income or assets, relational well-being (Ri), in the form of care and affection, and cognitive well-being (Ci), in the form of happiness or spirituality. The nature and sign of the

3 Economic planners use SAMs to inform a wide range of different models (e.g., multiplier models, input-output models and general equilibrium models) about the monetary flows between economic agents in the paid economy.

relationship between the different scarce resources allocated by the individual to the household is indicated, but not yet specified, by a functional relationship fh . One member may contribute all of her/his income or assets to the household, another may contribute nothing, in which case $Mi=0$. The individual contribution to the relational well-being of the household may also be zero or negative, e.g., in the case of the individual not investing any time in household activities or only demanding. This applies to cognitive/subjective well-being as well, which may also take a negative form in the case of dissatisfactions or unhappiness. Vice versa, if we mirror Ih in the diagonal of the matrix, we can consider what households provide to its individual members, Hi (column 2, row 1). The household may provide shelter and home cooked meals that contribute to the material well-being of the individual household member (Mh). The household may also provide a sense of identity and family network to its individual members, which contributes to relational well-being (Rh). Finally, a household may add to a sense of security and personal satisfaction (Ch).⁷¹⁰

In the same way, the flow of resources between a firm (Fc) and the community in which it is located (column 3, row 4) can be examined. By providing employment and economic activity in the community, the firm contributes to the material well-being of the community (Mf). Plus, if the firm conducts its business in an environmentally sustainable manner, it may *contribute* to the relational well-being of the community (Rf).⁷¹¹ If it gives a sense of identity and future economic prospects to the community, it adds to their quality of life (Cf).

In turn, the community, as shown in the mirror effect between column 4 and row 3, provides the physical space and proximity to natural resources to a firm, which adds to the firm's income and profits (Mc). It may also provide workers and social activities that matter for the firms' public relations (Rc), plus it may foster a public opinion in support of, or against, the economic activities and presence of the firm (Cc).

The different columns and rows *together aggregate* to the total level of human well-being created in the economy, called "collective well-being" (which in this sense can also be seen as *overall well-being*). Each column corresponds to a row to ensure the matrix's robustness. The framework can encompass multiple layers (of, for instance, government) without losing its robustness, as all relationships can still be defined within the parameters of the IEM framework.

Given that both qualitative and quantitative values can enter the functional specifications, their outcomes cannot be simply aggregated on a uni-dimensional scale.⁷¹² The $\cap$ sign indicates that it is relevant to an intersection of all the different valued measures of well-being.

In the diagonal of the matrix (which is empty in a traditional SAM), the differences in the allocation of scarce resources between individuals, households, firms, communities/social groups, layers of government, and between the national economy and the rest of the world are analysed. By populating the diagonal, the inclusive economics framework gives, *prima facie*, a reason to address inter-agent allocation issues concerning resource use, distribution and how (dis)satisfied people are with that allocation instead of looking only at the closing of the matrix, i.e., collective well-being.⁷¹³

This gives sufficient room to explore the manifestations, effects and (re)productions of different kinds of *inequalities* in an economic system, and especially the government's role in terms of policy formulation and implementation, as well as its effectiveness in ensuring economic inclusivity. Space does not permit in-depth analysis here; hence the depicted relationships in the matrix are still unspecified, meaning that the nature, sign and direction of the functional relationships between economic agents and resources can still be formulated. Also, the methodological design related to integrating the quantitative and qualitative analysis of multi-dimensional well-being can still be added.⁷¹⁴

In this way, the IEM can be used as a valuable and complete *analytical tool* to examine the (projected) impact of policy and change in an economy in more applied terms. Policy alternatives can thus be studied in order to stimulate scenario-type thinking on different human well-being development trajectories. The IEM confirms the need for economic policies to be highly *integrative*⁴ by nature and why gaining clarity about the main economic objective to aim at and the fundamentals of a new economic agenda are so important for policy decision-making.

A new end goal: Defining a new economic agenda

When examining policy options, policy priorities and policy goals, there first needs to be clarity on what they are geared towards. What is the end goal? In shaping a new economic agenda, economic inclusivity

4 This means comprehending interrelationships between policy priorities and between different aspects of inclusivity.

in and of itself is not the end goal; it is the *means* to an end. It is actually the *effect* of economic inclusivity that is desperately needed, and that is the combination of genuine economic progress, improvement in overall human well-being and higher quality of life for all. That is the proposed end goal the economy ought to be striving towards.

However, building an inclusive economy is the first and most critical *step* toward that. Putting that missing link in the chain, *inclusivity*, in place will advance a new economic agenda and draw the necessary traction for redirecting the economy toward achieving a better and more sustainable end goal (than just making more money). It is clear: We cannot continue with the models, economic theories, policies and short-termism practices that particularly held sway between 1980 and 2020 in the way they did.

After these 40 years, it is time to get out of the economic wilderness; it is time to make the hardline adjustments needed to move into a *new direction* (through evolutionary change, not revolutionary change). It starts with a new economic agenda. The policy proposals (that will follow) contribute toward both step one (goal one), i.e., economic inclusivity, and to all that comprises the end goal.

In view of the post-GFC period and the COVID-19 crisis, a *new economic agenda* is actually already taking shape globally, but it has become necessary to describe/define it in a clearer way so that progress can be tracked. The SDGs present a very helpful scope of the development goals to work towards and are certainly part of this new economic agenda, but they are not the full picture.⁵ The agenda needs further framing in the broader context of the economy. Without space permitted to go into all the detail, this section will highlight the key components, as it sees it, of such a new economic inclusion agenda.

Given the ecological and social justice deficiencies inherent in the way that the economy currently operates, the *first* new agenda *priority* is that it should be fundamentally renewed, both in theory and in practice. Much has already been explained about altering the foundations of the current economy. Suffice, therefore, to say that the whole economic system needs *reformation* so that it is better able to address, specifically, poverty, economic inequality, environmental degradation, unemployment, and the various ways in which it negatively impacts and erodes the foundation of our societal order (as

5 See Appendix 6.1 at the end of the chapter for a complete outline of the SDGs.

it negatively affects relationships among people and economic agents, and places pressure on the earth's ecological limits).

Very significant and quite astonishing, though, instead of viewing them as isolated entities, our current COVID-19-induced economic reality may now allow us to view these four aspects as *one problem*: poverty, environmental ruin, unemployment, and social collapse form an interdependent reality that can be addressed jointly.

In the words of *Our Common Future*: "These are not separate crises: an environmental crisis, a development crisis, an energy crisis. They are one."⁷¹⁵ Addressing them jointly as four facets of one problem and from the perspective of a single solution will almost be impossible because current economic thinking and activity does not and cannot anticipate it unless economic theory and practice can adjust to a more *pluralistic* approach. This is where the value of inclusive economic theory and practice comes in: to enable this transition. There is a kind of *voluntarism* at the very heart of Western society and supercapitalism, driven by the one-sided value that if everyone simply pursues economic self-interest, then we shall automatically achieve "the greatest happiness for the greatest number".⁷¹⁶

Appreciating a plural approach opens up a broader perspective, viewing overall well-being, or the lack thereof, as the *common denominator* of these four facets, making it an interconnected problem. Due to its integrative vantage point, inclusive economic theory and practice present the ideal framework to work on a single solution; that is, overall economic well-being. Aligning every aspect of the economy towards achieving this proposed end goal is the *second* new inclusive agenda *priority*. When well-being, not just growth, is given proper priority, an integrated solution emerges.

It follows that the *third priority* of a new economic agenda must be to address skewed power relations to prevent exploitation (overt/covert) and the concentration of economic power. To also protect the integrity of the market economy system and prevent a slide towards Marxist/socialist centralised planning, efforts to *decentralise* the economy and stimulate local economic activity and wealth creation are vital.

The issue of how economic power and control are exercised in our society is a cause of major concern, especially in how it has worked itself like a poison into the structural composites of the economy (capitalism).⁷¹⁷ A very unequal and unjust economy (and society) has emerged that requires drastic intervention. The only way new power relationships will be able to form is to *reconfigure* the concentration

of power and the structural causes of such concentration from the vantage point of the disenfranchised and to move (economic) power back to the people. Hence, greater *inclusivity* in business value chains, public policy-making and civil society initiatives go hand-in-hand with decentralising the economy to ensure not just a better distribution of income and a fairer allocation of resources but a redistribution of economic decision-making power.

This is central to shaping a redistributive culture and a system of more participative and inclusive governance: political and economic. It is merely a basic requirement of developing a more humane and sustainable society (and economy) that gives priority to creating access for all. This also helps address the issue of *economic accountability* that is desperately lacking in science.

For instance, modern economics never raises the question of *who* caused economic turmoil; it only asks *what* caused unemployment, slow growth, high inflation, and imperfect competition. As a result, assigning any responsibility for economic damages and ailments to economic agents is rejected to keep the science neutral and positive. But this *denial* has often led economic policy to be less effective as it refuses to consider the economic benefit or harm that people do to others as such; rather, it understands the economic benefit and harms solely as effects of the good or bad functioning of the market mechanism itself.⁷¹⁸

Bringing economic accountability sensibly into the equation helps economic policy address the *real causes* of economic misdoing, not just the symptoms. In this way, the new economy doesn't just accommodate itself to our social order but becomes a force for good, addressing structural weaknesses, such as systemic poverty.

The *fourth priority* of a new, inclusive economic agenda is the reprioritisation of what is most important in the economy: people or money? Of course, there needs to be production and income generation in the economy, but if (some of) it occurs at the expense of (some) people, is it acceptable?

Let us assume for a moment that there is a reversal of priorities in an economy that places *care needs* first rather than last on its list of priorities and then addresses the scope of production. Such an economy that places income and consumption levels at the disposal of care needs will avoid causing many of the socio-economic problems we currently face.⁷¹⁹ The reason is that it has become a *pre-care* economy (as opposed to the current *post-care* economy, which engages in the

highest possible consumption and production and only afterwards attempts to mitigate the mounting care needs, often at high cost).

Such an *economy of care* will reverse the direction of influence in the economy so that the factors of production in the consumption and production sectors come under the influence of the care required by prioritising, for instance: waste management, people's basic needs, economic well-being, reducing structural unemployment and increasing capital intensity to reduce systemic poverty. This also incorporates some of the valuable principles of an economy of enough or a *steady-state economy*.

Important for policy is, for example, how it can solve the labour paradox: in a fast-growing economy, a continuous rise in productivity simultaneously *increases* care needs but *decreases* the available volume of paid transductive⁶ labour required to meet those needs. So, if average income levels don't rise, a path is cleared for the resulting economic surplus toward the care activities required, benefiting transductive labour.

The *fifth priority* in a new economic agenda is the need to fundamentally renew the economy in view of the limits of growth. In Professor Fioramonti's book, *Wellbeing economy – success in a world without growth*, he states unequivocally:

The wellbeing economy is within reach. As a matter of fact, myriads of innovations are already popping up across all segments of society, mostly under-reported or actively suppressed by the growth ideology. ... We are at a crossroads. We either succeed together at imagining and building a prosperous world without growth, or we'll pay the price of inaction. That is the greatest challenge of our civilisation today.⁷²⁰

The limits to growth due to COVID-19 are forcing countries to re-evaluate their methods and principles for progress; they are rediscovering new ways to measure and implement genuine progress. New opportunities for *collaboration* within and between communities, inclusive businesses, NGOs and governments are shaping new patterns

6 Transductive labour can be paid or unpaid and includes diverse activities (e.g., raising children and care for elderly). According to Fioramonti (2017:208), "Care is the pillar of the well-being economy." He adds that all the *caretakers*, whether they are cleaners, gardeners, garbage collectors or conservationists, are the backbone of the economy and the real drivers of prosperity. He claims that "the economy is not about wealth and money: it is about people" (p. 212).

for sustainable development. Innovative ideas and technology are finding new paths for economic stimulation and inclusion. It gives humanity an opportunity to *rethink* our assumptions about what it means to be developed.⁷²¹ Importantly, it creates scope for policy innovation, especially in the area of pro-poor policies that embrace new development paradigms.

The *sixth priority* is that of breaking traps related to the economy that either prevent/exclude people from meaningful participation or disrupt systems and the proper functioning of the economy that may be brought about by political, social and/or international incidents or crises. Having discussed most of the following traps earlier, they are identified (of course not all-inclusive) as poverty traps, debt traps, natural resource traps and conflict traps.

The *seventh* and last *priority* identified to help shape a new, inclusive economic agenda is *seeing systems*. In a globalising world of growing interdependence, it is critical to comprehend the increased complexities that partly make up the global economy and partly have an external influence on it.

Continued learning how to *see the larger systems*: organisations, complex supply chains, industries, cities and regions, is vital. This gives insight and perspective for shaping effective and innovative strategies in different settings (e.g., policy, business and civil action). Then the design of products, infrastructures, organisational and public choices, and business models advance a healthy, inclusive economy rather than quick-fix solutions that often end up making the overall economic situation worse.

Responsible management of regenerative resources is possible in *combination* with creating equal economic opportunities and suitable economic safety nets based on inclusive economic values.⁷²² Comprehending such larger systems enables decision-makers to combine complexity with simplicity to enhance economic efficiency. With the human family, for example, being integral to the *global village*, the same systems thinking principles can be applied to viewing the *family* as a model for how to approach the new economic agenda, especially in light of the science's origin – *oikonomos* – and Ubuntu.

With the family having a central place in all healthy human societies, families teach us to be selfless and to sacrifice ourselves for others.⁷²³ These qualities are innate to genuine economic progress. As a strong shaper of social organisation, the economy can be a powerful instrument in creating a *healthy society* as part of a balanced system that filters out self-centred individualism, exploitative profit-making

and making machines out of (working) people. In view of this, what would the new economy's policy priorities comprise?

Policies promoting and enabling inclusive growth

The linear economy, having become so *infatuated* with numbers, statistics and quantifying growth, has neglected the equal importance of the nature and quality of growth. As Fioramonti contends, "The pursuit of growth has become more than a national policy: it is a global beauty contest."⁷²⁴ The widely held neoclassical economic theory, multinational corporations (MNCs), bankers and politicians have (on purpose) been arguing for the past 40 years, especially that the pursuit of economic growth is the only way to develop; it is the *magic bullet* for building a great future for all.

Now that growth is increasingly showing signs of stagnation, the challenge is to find alternative sustainable approaches pertaining to growth. Inclusive growth has arguably emerged as the strongest contender, particularly from a policy perspective. Germana and Luisa Corrado highlight that "inclusive growth deals with policies that allow people from different groups – gender, ethnicity, religion – and across sectors – agriculture, manufacturing industry, services, to contribute to, and benefit from economic growth".⁷²⁵

In view of this, there is a real urgency to develop *policies* that truly address the problems that are causing low levels of inclusive growth and inequality (*predistribution* policies) and design/adjust current economic policies in order to effectively further such growth and reduce inequality (plus counteract that which perpetuates the inequality). In principle, policies are integral to what is behind the successes and failures to promote greater inclusiveness. A further task of inclusive growth policies is to ensure a more *equitable distribution* of the benefits from economic growth.

Despite resistance from sceptics that support the pro-growth agenda of neoliberalism, there is wide recognition of the need for inclusive growth and for policies that support it and enables it, i.e., making it a tangible, positive impact on economies so as to slowly (or rapidly) change the nature of growth as well as broadening the sharing of economic growth.⁷²⁶ Some call it *real growth*, others call it *shared growth*, but the fact of the matter is: Inclusive growth and the policies to design and implement it presents an opportunity to find unique synergies between seemingly opposite or contradictory objectives for improved overall well-being.

For instance, policy-makers should not have to choose between pro-growth and pro-poor policies. Economic policies have to be designed and *prioritised* in such a way that those that increase growth should also reduce poverty, and policies that alleviate poverty should also stimulate growth. While this cannot happen under all circumstances, inclusive growth policies make this a *primary objective*.

The same principle applies to other divergent components of well-being. In broad terms, the following useful *principles* were identified by the Organisation for Economic Co-operation and Development (OECD) in making policy recommendations on inclusive growth:⁷²⁷

- Direct investment toward people and places that have been left behind through
 - targeted quality childcare, early education and life-long acquisition of skills;
 - effective access to quality healthcare, affordable housing, judicial services, infrastructures; and
 - optimal natural resource management for sustainable growth.
- Support business dynamism and inclusive labour markets by means of
 - broad-based innovation and technology diffusion;
 - strong and healthy competition and vibrant entrepreneurship;
 - access to good quality jobs, especially for women and marginalised groups; and
 - enhanced resilience and adaptation (e.g., skills) to the future of work.
- Build efficient, inclusive and responsive governments through
 - aligned policy packages across the whole of government;
 - integration of distributional features upfront in the design of policy; and
 - assessing policies for their impact on inclusiveness and growth.

Importantly, as Elena Ianchovichina and Susanna Lundstrom underline: “Encouraging broad-based and inclusive growth does not imply a return to government-sponsored industrial policies, but instead puts the emphasis on policies that remove constraints to growth and create a level playing field for investment.”⁷²⁸

This means, among other things, that policy-makers should aim to create an *investment environment* where investment is channelled in such a way that it benefits the most pro-poor combination of overall growth and inequality reduction for their country. Illustrating the

three principles above as a framework for policy action, Figure 6.2 further highlights the *broader context* (external) within which policy decisions are made since no country is an island in today's world.

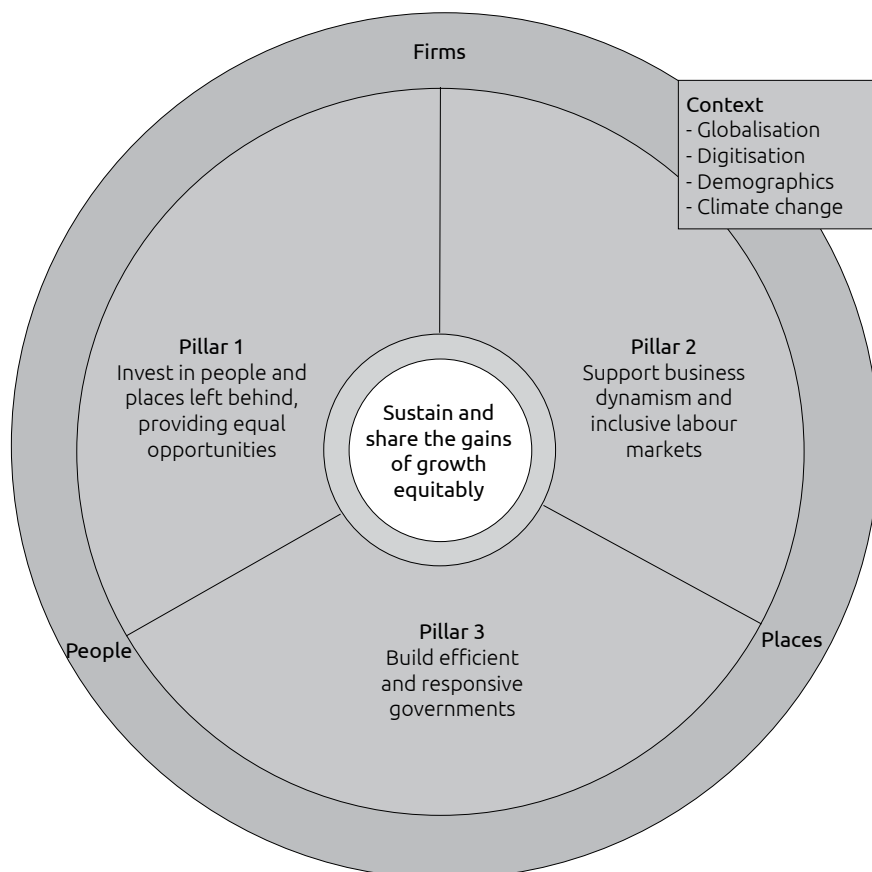


Figure 6.2: Framework for policy action on inclusive growth (Source: OECD 2018b)⁷²⁹

More specific policy actions for each pillar can be summarised as follows. For Pillar/Principle 1: increasing social mobility, securing benefits from regional integration (e.g., higher export earnings and lower import costs), and investing in communities' well-being and social capital.⁷³⁰ Policy action in Pillar 2 entails:

- Stimulating productivity growth while ensuring adaptation and diffusion of, and access to, technologies in a broad sense, especially for small firms and infant industries.

- Putting employment protection in place to better enable labour mobility and opportunities for placement, as well as retention of quality jobs for all.
- Policies to accelerate investment in low-emission technologies and in smart and clean infrastructure.
- Conserving and sustainably using biodiversity and water resources.
- Phasing out environmentally harmful subsidies to consumers and producers.
- Structural reforms to support the reallocation of resources so that income-constrained groups can benefit more from it and put it into productive use to meet basic needs.

The policy actions in Pillar 3 comprise embedding inclusiveness in policy-making (i.e., greater stakeholder engagement in order to strengthen policies, standards and projects in areas of broader public interest and preventing the capture of public policy by narrow interest groups); making use of data and smart technologies to design citizen-centred policies based on Ubuntu-principles; and screening policies for inclusiveness and accountability (e.g., budget transparency).

An essential policy priority is to *realign growth patterns* to become employment-intensive. If, for instance, the employment coefficient in a country is approximately 0.5, then employment expands at only half the rate of GDP growth.⁷³¹ The absorption of labour will thus continually decrease relative to output, and overall employment intensity decline, increasing the risk of jobless growth:

In the short term, governments could potentially use income distribution schemes to attenuate negative impacts on the poor of policies intended to jump-start growth, which may be relevant for a number of reasons in a specific country context. However, the inclusive growth approach [to policy] includes the analysis of inclusion through productive employment as transfer schemes cannot be an answer in the long term and can be problematic also in the short term.⁷³²

Policies to increase employment must go further than just stimulating growth in the core, formal economy. Developing and investing in the *informal economy* is crucial for stimulating inclusive growth. If economic policy could develop untapped economic and employment potential in the informal sector and combine it with efforts to stimulate the demand for unskilled and semi-skilled labour in the formal sector, such *inclusivity* could produce an economic growth trajectory that

would increase the scope and value of economic activity and income in the informal economy (including its *survivalist segment*).⁷³³

Income-generating activities in the informal sector would become integral to growing economic activity and the collective good. Poor and marginalised people would contribute to growth rather than just receive benefits from formal sector growth (e.g., grants). In this way, the dependency ratio of the poor can be *reduced*, generating inclusive growth and development. Pursuing and attaining such inclusive growth would clearly require an *explicit* policy strategy to increase productive activity, employment, self-employment/entrepreneurship and earnings in both informal and formal segments of the economy to develop resilient backward and forward linkages between these segments and facilitate sustainable transitions into employment.

Through economic policy, inclusive growth must be implemented in combination with *inclusive development*. If the common good is to be identified in an economy, then a new appreciation of human relationships, even power relationships (e.g., employer-employee or different levels of governance), are essential to inclusive development and inclusive growth, together with the moral dimensions of decision-making, to ensure that the needs of well-being are holistically met (and not exploited by the rich). In this manner, *overall well-being* becomes the unifying and ultimate goal of economic performance, social progress and economic policy-making, which is different from (selective/unequal) material welfare only.

The vital aspect of inclusive development is that it fully recognises that “poverty is not just a problem for the poor: it is everybody’s problem”.⁷³⁴ This is part of a *new development model* based on care and shared values where policies focus on the distribution of social and material benefits across social groups and categories but also address the structural factors that cause and sustain exclusion and marginalisation of vulnerable groups in society.⁷³⁵

Notably, inclusive development gives voice and power to the concerns and aspirations of otherwise excluded groups, and it allows them to shape the future of society constructively in *interaction* with other stakeholder groups. This needs to be buttressed by inclusive growth policies.

Taxation, moving to *greener* inclusive growth, should also be rethought by policy-makers so as to move it from labour to pollution and resources.⁷³⁶ This would help stop the subsidisation of activities that are damaging to the environment and encourage industry to follow

a longer-term view and invest in less resource-intensive technologies. With resources becoming finite as consumption increases and resource replacement is slow, *green growth policies* will have to promote a circular economic model to attain inclusivity targets.

Prioritising it collectively needs to become a natural way of thinking for policy-makers, investors, the private sector and consumers. Strong political will, supported by an active civil society, is required to implement such policy priorities. Therefore, an innovative and inclusive environmental policy *contains* at least the following:⁷³⁷

- *The prevention principle* requires the accountability of every economic agent (e.g., the polluter must not only pay but also actively prevent pollution).
- *Set minimum standards* for the preservation of human health and the environment (the government can then use these standards to establish binding restrictions on polluters).
- *Promote more intensive recycling* of waste materials and develop more green technologies to assist with purifying waste gases, water and other resources.
- *Seek improvements in housing* that are more ecologically responsible, also for the purpose of enhancing community and neighbourhood interaction regarding green buildings.
- *Encourage expansion* of the issues of environmental responsibility in the training sector, in both child and adult education.

According to Valerie Cerra, “Achieving inclusive growth is the pivotal economic policy challenge of our time;”⁷³⁸ it largely determines countries’ ability to achieve the SDGs. Concomitant, rapid climate change is creating an escalating danger to sustaining growth. Being multidimensional, inclusive growth requires multidimensional policies.

Macroeconomic policies that help create *stability* are crucial and a prerequisite to achieving sustained growth and inclusive prosperity. This should be combined with *improved governance* in areas such as: reducing the opportunities for corruption; adopting a regulatory framework with fewer discretionary decisions and more transparency in state processes; cross-border agreements for combating corruption and tax evasion (e.g., anti-money laundering measures and agreements); and making use of fiscal policy to improve the distribution of income and poverty reduction as a means of direct intervention.

Adding to multidimensionality: A number of policies for an inclusive *private sector* can be identified, such as competition and anti-trust policies; labour market policies able to reallocate workers as needed and able to help the economy adjust to macroeconomic shocks; financial inclusion; and policies that help guide gender equality.

A *dashboard* of indicators has been identified to make policy decisions regarding inclusive growth more practical. Such a set of core inclusive growth indicators is guided by the framework for policy action in Figure 6.2 and the availability of globally comparable data. These *indicators* measure key dynamics of inclusive growth (outcomes or drivers) to assist with the interpretation of relevant policy challenges. The dashboard is evolutionary and could, over time, be complemented by more indicators to consider further issues, such as labour share of national income, union density together with union coverage; child obesity; overweight rates; and indicators of natural resource management and carbon productivity.⁷³⁹

The dashboard incorporates the multiple facets of *inclusive growth* as well as emerging research on the future of work, digitalisation and open, participatory government. These indicators are a subset of the statistical evidence that underpins sectoral and in-depth analytical work by leading researchers on growth and inclusiveness. Before getting to the dashboard itself, four categories are composed to help organise the dashboard:⁷⁴⁰

- *Ensuring equitable sharing of benefits from growth.* These indicators help to track whether the economy is growing and living standards are increasing for different population groups.
- *Inclusive and well-functioning markets.* This category studies the structure and functioning of the economy and marketplaces as the main drivers of growth and inclusiveness. Product and labour markets are assessed, both in terms of efficiency and equity. It provides an understanding of the main economic forces underpinning people's living standards. These indicators gauge the productivity-inclusiveness nexus at a more granular level, e.g., at gender, sectoral and geographical levels.
- *Equal opportunities and foundations of future prosperity.* This includes the distribution of selected non-economic well-being components, e.g., education, health, socio-emotional skills, environmental quality of life, and childcare. These elements capture people's opportunities to improve well-being and participate in the economy and society.

- *Governance.* This category entails a whole-of-the-government approach to monitoring the efficiency and responsiveness of the government, as well as inclusive governance.

It is important that data and appropriate indicators are available to monitor progress and identify policy targeting and prioritisation. Otherwise, no inclusive policy strategy can be sustained, despite all the best intentions in the world. Significant progress to assist countries has been made by the OECD and other international bodies and statistical offices, but there are still gaps in the following areas: data informing on behavioural aspects of consumption inequality and environmental justice; spatial segregation indicators at the local level; digitalisation-related indicators, especially in view of the Fourth Industrial Revolution (4IR); mental health indicators (notably after the COVID-19-pandemic); and measures of resilience and environmental risks.

Table 6.2 provides an outline of the *dashboard indicators* to be considered by policy-makers in order to ensure inclusive growth. Of course, the effectiveness of their implementation and the synergies they create are what determine how inclusive growth is in an economy. Note that the core indicators in the four categories in Table 6.2 can be complemented by secondary indicators (Category 1), such as top 10% wealth share (% of total household net wealth); regional median income gap (% difference); and life expectancy gap by educational attainment (number of years). Category 2 can be complemented by skills mismatch (%), unemployment gap by education (%), and average employment gap of disadvantaged people (%).

Tracking the progress in these inclusive growth indicators among OECD countries, comparing 2010 with 2015, is shown in Figure 6.3; simple averages are displayed. Indicators are adjusted as needed so that better performance is depicted by high scores and lower performance by low scores.

It should be mentioned that what is called the “Beyond-GDP agenda”, which calls for broader measures of societal progress, has advanced significantly during the last few decades.⁷⁴¹ Several noteworthy contributions, frameworks and methodological advances have been made in support of both well-being measurement and its *application* to various policy issues. Appendix 6.2 at the end of the chapter summarises how these frameworks are used in a number of different countries.

Table 6.2: Indicators of inclusive growth for general application

Category	Inclusive growth indicators
Growth and ensuring equitable sharing of benefits from growth	- GDP per capita growth (%). - Median income growth and level (%; USD PPP). - S80/20 share of income (ratio). - Bottom 40% wealth share and top 10% wealth share (% of household net wealth). - Life expectancy (number of years). - Mortality from outdoor air pollution (deaths per million inhabitants) - Relative poverty rate (%).
Inclusive and well-functioning markets	- Annual labour productivity growth and level (%; USD PPP). - Employment-to-population ratio (%). - Earnings dispersion (inter-decile ratio). - Female wage gap (%) - Involuntary part-time employment (%). - Digital access (businesses using cloud computing services) (%). - Share of SME loans in total business loans (%).
Equal opportunities and foundations of future prosperity	- Variations in science performance explained by students' socio-economic status (%). - Correlation of earnings outcomes across generations (coefficient). - Childcare enrolment rate (children aged 0-2) (%). - Young people neither in employment nor in education and training (18-24) (%). - Share of adults who score below Level 1 in both literacy and numeracy (%). - Regional life expectancy gap (% difference). - Resilient students (%).
Governance	- Confidence in government (%). - Voter turnout (%). - Female political participation (%).

(Sources: OECD 2018b; Algan & Cahuc 2013)⁷⁴²

The whole idea with not just inclusive growth but all the policies related to promoting an inclusive economy is to create an *enabling environment* in which social groups (especially disenfranchised groups), inclusive businesses and other economic agents *share the benefits* of improved economic performance and stronger inclusive growth, more genuine progress, smart circular economic advantages, improved collaboration, and being sustained by inclusive institutions that promote it.

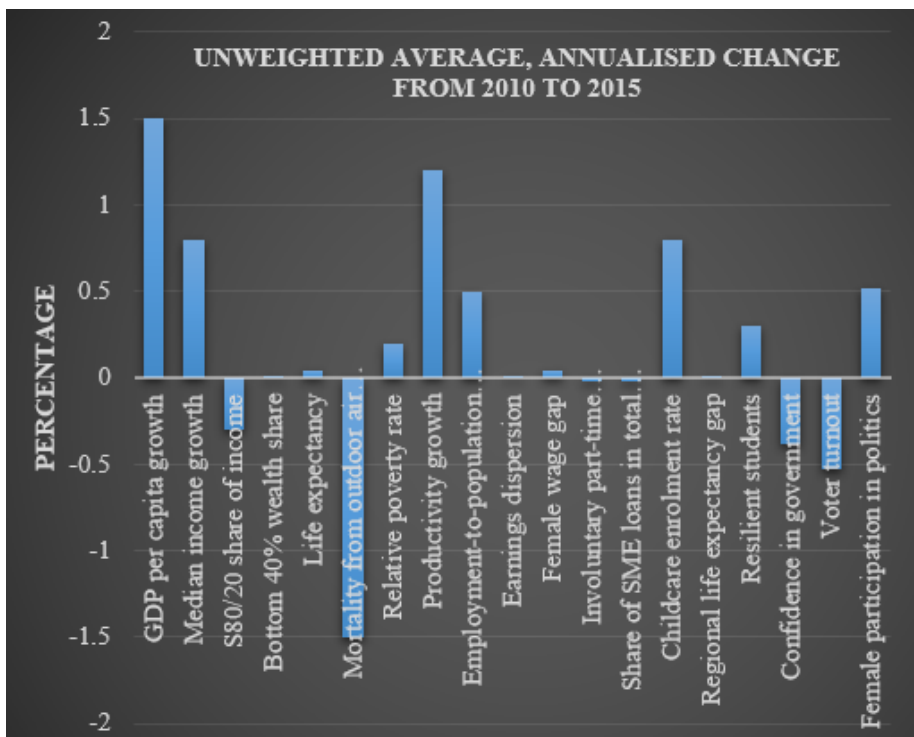


Figure 6.3: Tracking the progress of inclusive growth in OECD countries (Sources: OECD 2018b; Heshmati et al. 2019; De Mello & Dutz 2012)⁷⁴³

Policies that ensure genuine economic progress and effective redistribution of income

Given that the richest 1% in the world owns as much wealth as the remaining 99%, the challenge of generating enough growth (and rapidly so) that would enable economic inequality to decrease drastically is virtually impossible.⁷⁴⁴ Rob Dietz and Dan O'Neill confirm that “the evidence shows that the pursuit of a bigger economy is undermining the life-support systems of the planet and failing to make us better off”.⁷⁴⁵

How can governments then enable economic progress through policy? Not that economic growth shouldn't be the main policy priority, especially inclusive growth, but there have to be other (complementary) avenues that can also be considered for answering this question. When prospects for generating *genuine* economic

progress are examined, effective income *redistribution* (among other types of economic redistribution) should form an integral part.

There are no claims that the distribution of income by the market will be fair or that none will fall below subsistence if left alone. While the market's distribution of income was accepted earlier as normative, even Alvin Rabushka admitted in the 1980s that "compassion is indeed a virtue. Helping the disabled, the handicapped, the blind, the frail, or abandoned children has a place in public life".⁷⁴⁶ The point is that the government's involvement in helping the poor is unquestionable. So, as Daly and Cobb point out:

If economics is to be *for community*, then work should be available for all who want it, and there should be clear incentives for at least one member of each household to seek employment. If millions who want work are denied jobs and forced on the dole, this is a sign of profound failure.⁷⁴⁷

True economic growth is measured largely by the success of the economy in meeting the basic needs of all on a sustainable basis. The present system is not just unequal; it is inequitable. What direction should reform then take? The following four *reform principles* are advanced as inclusive guidelines for the policy proposals to be followed:

- A reformed economic system should require that the truly basic needs of all be met.
- A reformed/preferred economic system must be simple and inexpensive to implement.
- A preferred economic system requires a minimum of information from recipients and imposes a minimum of special conditions on them.
- A preferred economic system provides a strong incentive to work.

Fioramonti asks this vital question: "Is development about living happy, fulfilling and peaceful lives or is it about accumulating money amid poverty, inequality, violence, as well as social and environmental destruction?"⁷⁴⁸ While this is for everyone to decide, the *fact* is that a shift is taking place, causing people to redefine the quality of life in terms of well-being, not income per se. This shift is something policy needs to respond to. Reforming the redistribution of income, for instance, will have to be based on the principles of *equity* and *sustainability*.

Having established that progress is not always linear because it means different things to different people/groups (for some, it means

more money, for others, it means better quality of life in, for instance, leisure time), one must keep in mind that even economic growth can be interpreted in subjective terms. Hence the need to allow a more *comprehensive* and pluralistic understanding of *progress* and growth to guide policy priorities, decision-making and implementation. The following sub-sections consider the pursuit of genuine progress and redistribution through a diverse range of policy proposals.

Implementing genuine economic progress through policy

The first step is to move beyond the arguments about the pros and cons of switching to other/better measures of economic and social progress by indicator experts, debating what the best or most correct measure is. The *aim* is not an academic exercise to find the perfect indicator but an ongoing global dialogue to agree on workable solutions so that the best possible policies be implemented. All indicators are proxies and limited in scope. On their own, none can really measure all significant aspects of economic, social and environmental well-being.

There is, therefore, after over 30 years of developing alternative measures, a need for consensus on seeking more/further indicators to set policy, inform decisions and measure progress.⁷⁴⁹ Arguments about measurement issues often only serve to obscure the fact that GDP has similar problems and is no longer a useful tool to be used *on its own* for evaluating policy decisions and the health of an economy.

Building consensus on the need for new and additional measures is desperately needed. The fact is, when more measures are taken into account in policy-making, it will lead “to better and more balanced political choices and contribute to a more sustainable and socially inclusive economy”.⁷⁵⁰

One of the stand-out indicators of genuine economic progress, as explained in detail earlier, is the Genuine Progress Indicator (GPI). The economic, social and environmental indicators that compose the GPI can *inform policy* in a number of crucial ways. As a comparative measure, it can assist policy-makers in having a better understanding of the extensive impacts of policies designed to maximise GDP growth. It may, for instance, show how tax policies may benefit the wealthy disproportionately more than the poor, thus making little contribution to average living standards, while inequality may increase.⁷⁵¹

Having a *deeper insight* into the sources of economic growth and decline, as well as what generates genuine progress, policy-makers can include those factors in their policy formulation to ensure genuine improvements in the well-being of citizens. The design of social and

welfare policies could also benefit from the information provided by GPI. “Accounting for the value of household work could inform child care programs by showing that social and human capital investments made at home are significant in preparing children for school later.”⁷⁵²

In terms of measuring non-market value, GPI also accounts for the value of several government outputs that may not normally factor into local development policy decisions, e.g., the servicing of roads and highways.

Then, in the area of the *biosphere*, GPI includes indicators of the costs associated with declining environmental quality and can assist policy-makers to more accurately recognise the ecological pressures that can occur due to economic activities.⁷⁵³ Development could be guided better by local land-use policies and planning processes, having been informed by GPI information so that the quality of water, land and air is not compromised.

The GPI would also be able to indicate the returns on investment in ecological protection and restoration for human well-being. When the GPI is *combined* with conventional and/or other alternative measures of economic progress, it will enable policy-makers to examine the effects of policy changes as part of a more complete economic picture. Evaluating the contributions of net social benefits and non-market value can then enrich the economic analysis for better policy decisions.

GPI studies can further encourage the *policy debate* about what makes for sustainable economic welfare and how communities can achieve it.⁷⁵⁴ Being a predictor-indicator that helps attain sustainability, the GPI (2.0) can assist in obtaining greater inclusivity by properly informing deliberations about what constitutes a healthy, functioning economy. Maryland (US) is an example where state agency budgets have since 2014 been formulated by assessing potential Impacts on GPI indicators.⁷⁵⁵ Quality of life has been improved without negatively affecting overall social and ecological conditions. Rethinking progress, resource use, and development patterns require an *evolved* set of policy tools, which makes the contribution of genuine progress indicators and measures invaluable.

As highlighted by Ida Kubiszewski and others: “A healthy system needs to be designed in terms of human well-being outcomes, so that initiatives to reduce greenhouse gases (GHGs), abate poverty, conserve resources, or improve child health care are not seen as conflicting with economic *progress*.”⁷⁵⁶

For legislators and policy-makers, raising awareness and explaining how different policy initiatives would affect GPI would be a

pivotal step. Vermont (US) is another example of using the GPI as a tool to assist the state government in identifying public policy priorities and in the application of outcome-based budgeting. Vermont became the first state to establish a system (since 2013) for GPI data collection by legislative mandate.⁷⁵⁷ Other state-level organisations that have also calculated GPI and incorporated findings in policy-making include the Hawaii Department of Health, the Utah Population and Environment Coalition and the Colorado Fiscal Institute.

Another country that has successfully implemented the GPI is Brazil. While GDP growth is still regarded as important, the country has started to give *equal weight* to its GPI in public policy-making. Between 1970 and 2010, Brazil's GDP per capita grew steadily (having doubled over the 40 years), while its GPI per capita grew at a slower rate but also improved significantly. Yet, given the high levels of poverty still prevalent, Andrade and Garcia warn:

Our GPI results empirically demonstrate that increasing Brazil's real GDP for a period of time without addressing the distribution of income and the efficiency with which Brazil utilises its natural resources will lead to growing social and environmental costs, which are likely to overwhelm any increases in benefits and thus result in uneconomic growth.⁷⁵⁸

This places emphasis on policy-makers to closely *monitor* the marginal costs and benefits generated by GDP growth to prevent a decrease in the GPI (i.e., net social profit). Hence, the authors recommend that Brazil alters the nature of GDP growth to be more in line with inclusive growth and suggest that growth be focused more on

- value-adding in production;
- improving the distribution of income;
- reducing the material and energy intensity of production;
- minimising the environmental impact of resource-extraction activities; and
- keeping natural capital stocks intact as far as possible (meaning harvesting renewable resources at a rate no greater than they can naturally regenerate).

These proposals for policy-makers are applicable to all countries, not just Brazil. It highlights the importance, especially for developing countries, that their economies keep growing, at least in the medium term, before making the transition to or employing the principles of a *steady-state economy*.⁷⁵⁹ Brazil's GPI results also show that the lack

of sufficient investment in infrastructure is encumbering overall well-being, which necessitates more investment in this area because infrastructural capital underpins the productive and efficiency potential of an economy.

GPI results moreover indicate a sharp rise in Brazil's *social costs* in the 2000s, which requires crime rates to be curbed and the integrity of families to be protected in the short term; and for the long term, income and wealth redistribution policies to be improved as well as educational opportunities are expanded for positive results later on.⁷⁶⁰

A *lesson for all* is that if Brazil is to enjoy a sustainable pattern of non-declining economic welfare, policies aimed at reducing environmental costs are critical to limit its use of material and energy resources. This will help ensure that the rate of physical throughput remains within a *resilience threshold* (e.g., ecological footprint $\leq$ biocapacity). Brazil's case confirms, again, that though trade-offs must sometimes be made between competing aims, environmental, economic and social goals do not have to be mutually exclusive.

When considering *policy focus areas*, especially from a GPI perspective, the following aspects can be identified: the cost of non-renewable energy depletion; the cost of GHG emissions; the impact of minimum wage rates on income inequality, the labour/leisure trade-off, and value of household work; the influence of transportation policy on road safety and traffic accidents; and the value of education.⁷⁶¹ The *replacement cost* of non-renewable energy sources is especially relevant for policy-makers in today's changing economy as we begin to replace non-renewable energy with large-scale renewable energy initiatives, such as wind, solar, geothermal and biomass.⁷⁶²

Policy-makers will be interested in the different types of *policy levers* available to drive changes through GPI, e.g. in taxes, infrastructure investment, land use planning and minimum wage.⁷⁶³ More specifically, the following *policy recommendations* have generally been identified in most cities and countries where the GPI has been implemented, in no particular order, and added at the end are other types of genuine progress measures' policy effects, such as that of HDI and gross national happiness (GNH):⁷⁶⁴

- Creating incentives to foster research and development into green technologies.
- Policies to promote resource conservation and the reduction of industrial material and energy throughput.
- Accounting policies to internalise the external and non-market costs of economic growth.

- Ecological tax reform to reward *inclusive business* behaviour (i.e., which increases overall well-being), encourage the development and uptake of resource-saving technologies, penalise environmentally-destructive behaviour, and reduce the proportion of private sector investment being directed into non-productive, *rent-seeking* ventures.
- Industrial investment and development of future industries will significantly raise productivity and increase a country/city's rate of energy efficiency.
- Import-replacement policies centred on a competitive industry base and the facilitation of high-tech, resource-saving and value-adding industries.
- Regulatory reform to reduce compliance costs for businesses without forgoing the welfare benefits that regulations are supposed to protect.
- Establishing flexible labour markets that provide workers with better work-leisure-family options while at the same time protecting full-time work entitlements.
- The HDI has been useful in pointing out deficiencies in achieving health and education outcomes, leading to policies that ensure more resources are allocated to those two areas.
- Bhutan's Gross National Happiness Index complements/adds these policy proposals:
 - sustainable and equitable socio-economic development (following this approach: it is easier to identify and alleviate misery than to maximise happiness);
 - conservation of the environment (policies that enhance the positive correlation between biodiversity and human happiness, improving health and aesthetic experiences);
 - preservation and promotion of culture (free choice is equated with cultural liberty, which is central to human rights, human dignity and human development); and
 - good governance (for securing public goods, including collective happiness).

Just as much as the primary purpose of measuring welfare is to inform policy, so welfare must be measured in order to assess *policy impacts*. As thus a useful instrument, Günseli Berik refers to the GPI by stating: "As a monetary indicator it can show the percentage change in the indicator value over time for a given country/region, and it can be used in simulations and to assess policy trade-offs."⁷⁶⁵

In deciding between different policy options, this last attribute is vital in light of the fact that, as a part of the finite natural ecosystem, the aggregate economy is facing biophysical constraints, and its growth is accompanied by *opportunity costs*. Unlike growth that puts weight on the expansion of scale, policies that promote inclusive development places more emphasis on improving the economic structure, human intelligence, technology and building capacity in a balanced way. This does not stimulate the expansion of the macroeconomic scale per se but instead prompts the increase in *overall well-being*, aiming to alleviate the conflicts between mankind and nature.

Inclusive policy strategies, therefore, focus on enhancing the quality more than the quantity of economic growth.⁷⁶⁶ Figure 6.4 illustrates the trend in which economic gains (through growth, for instance) beyond the threshold no longer correlate with increases in well-being. But where there is an overlap between well-being gains and income gains (the convergence zone) is where the focus of policy *should be* (e.g., quality of growth), and where inclusive policies must aim to expand (the overlap), extending the threshold to a higher level of well-being for genuine progress.

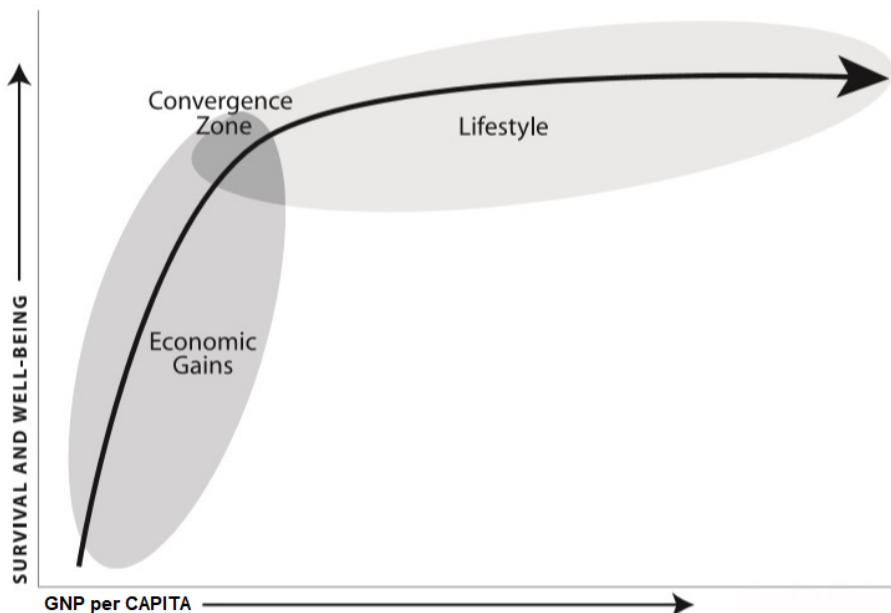


Figure 6.4: Convergence nexus: Gross National Product (GNP) vs well-being (Source: Inglehart 1997)⁷⁶⁷

In terms of *policy impact*, one area where Meurs and others see GPI-correlated policies making a strong contribution in countries is in achieving the SDGs, especially SDG3 (ensure healthy lives and promote well-being for all at all ages) and SDG8 (decent work and economic growth).⁷⁶⁸ Other policy impacts of GPI are: helping to *assess and quantify* the monetary value/contribution of voluntary work; the costs of unhealthy behaviour, such as tobacco use and obesity; and measuring the extent of waste in a community/city/country. Following a more inclusive and comprehensive approach to public policy, in terms of analysis and making projections, the GPI enables greater possibilities for *proactive* policy actions directed at specifically excluded and marginalised groups.

One example of this is the development of appropriate *eco-efficiency* indicators, which can be used to evaluate government policy to assist decision-makers in monitoring progress towards policy objectives and making crucial proactive changes before the next policy cycle that would benefit both the environment and the poor.⁷⁶⁹ Since such inclusive indicators evolve in tandem with the unique characteristics of the policy-making process, it is possible to improve their policy-guiding value.

Probably the main value added by an indicator system such as GPI is that it brings *sustainability* to the attention of multiple levels of government, with positive implications for planning, economic development, civic engagement and environmental initiatives. Focusing on genuine progress indicators enables policy-makers to measure what is *valued* (i.e., what *matters* in well-being terms), leaving prosperous and healthy communities for future generations. Crucially, as Stephen Posner points out, “The use of GPI in government decisions could represent a wider effort for public organisations to become environmentally responsible, economically profitable, and socially fair at the same time.”⁷⁷⁰ This *complementarity* is what gives real weight to genuine progress measures.

Inclusive tax reform for better income redistribution

Where the market and the current economic system arguably fail most is its lack of *efficiency* concerning the distribution of resources and the redistribution of wealth and income. The level of misallocation of resources and concentration of wealth, in Joseph Stiglitz’s words, “scarcity in an age of plenty”, is probably the main reason for questioning the *legitimacy* of the predominant economic system.⁷⁷¹ For

that is the main source of inequality and economic exclusion of by far the majority of the world's people.

The economic congestion and maldistribution that the misallocation has caused calls for more *direct intervention* through policy, both in terms of inclusive tax reform and better systems of resource distribution. "The great divide"⁷ that Stiglitz refers to needs our full attention. Genuine economic progress cannot occur without a tax system and structural features in the economy that ensure a better redistribution of income.

Since space does not permit a full analysis of *inclusive tax reform* and an explanation of all its benefits and implications, only some crucial elements are highlighted here. As stated previously, the present economic system is not just unequal; it is inequitable, meaning that it is so unequal that it's *unfair* in terms of equity (not just equality). Admittedly, and as explained before, some portion of inequality can be fair (and even justified) since there will never be economic equality. So, the *aim* of inclusive tax reform is to create an equitable redistribution of income that contributes copiously to overall well-being.

For income tax to be effective, it should, as Adam Smith noted of all taxes, be equitable, simple, economical and certain.⁷⁷² The basic *principle* is that taxes should not distort economic decisions unless there is a clear public decision that supports the distortion in question. For example, there might be a decision to discourage the smoking of tobacco by taxing cigarettes. We should not be utopian and expect a perfect tax system, but it must be an *improvement* (as a work in progress) in meeting basic human needs, retaining the incentive to work, and reducing the exaggerated spread of income between the rich and the poor. Making tax reform more inclusive (improving overall well-being and quality of life), the following *changes* are proposed (as part of fiscal policy):⁷⁷³

- Taxes and costs of repairs and improvements on the home whose rental value is added to income should be made possible to be deducted.
- Make the deduction doable of expenses necessary for earning a living, such as childcare, when it is needed to *enable a parent* to work.

7 Our economy is *defeated* by this "great divide". As the ancient Greek strategy of war avowed: "Divide and conquer".

- Enable the possible deduction of gifts to private institutions and charitable activities (this is part of *counterbalancing* the dominance of the state).
- Make it possible that small gifts to politicians could be deducted since these at least somewhat decrease their dependence on large donors and reduce the risk of public sector *corruption*.
- Corporate income tax can be either drastically reduced or selectively⁸ applied, which will end/reduce many distortions in present business decision-making and encourage inclusive business. However, *accompanying* the reduction (even cessation) of this tax should be the requirement that corporate profits be distributed to shareholders as income. There would be no double taxation here, as these profits would be taxed as part of shareholders' income.⁹ This is expected to more than compensate for losses from the corporate income tax.
- Increase the *pollution tax* to encourage the efficient reduction of pollution as part of an effort to internalise social and environmental costs. Internalisation promotes *equity* in that consumers will then pay the real costs of what they buy rather than passing on much of it to society at large. There are quite a number of tax options to consider (not dealt with here) to find the most efficient means of reducing pollution and working out as full and fair a system of pollution taxes as possible. What it essentially comes down to is that *polluters must pay* (or polluter pay principle), i.e., they must pay the costs that they impose on others.
- Increase/impose a *severance tax* as a means of limiting the use of non-renewable resources (even including renewable resources like timber). By taxing resources, the state performs the landlord's historical role of protecting resources. Only now the unearned income, rent, will be public revenue. The incentive will be toward more resource-saving, labour-using patterns of production and consumption. Holding down the scale of the throughput reduces pollution as well as depletion. This serves the principle of *taxing what we want less of*. Apart from being a vital source of revenue, it will help to limit the physical scale of the economy relative to the

8 What is meant with *selectively applied* is, for instance, decreasing taxes on corporations that invest and create jobs in their country's economy relative to those who do not invest much in human capital and create jobs.

9 It would shift away from internal financing of new investment out of retained earnings of corporations to competition in the capital market for investment funds.

ecosystem. By gradual trial and error, the system can evolve toward a system that relies mainly on the income tax (negative portion) to achieve equity and on the severance tax to raise revenue in respect of the *economy-ecology balance*.

- A basic *principle* of economics holds that it is highly efficient to tax rents because such taxes do not cause any distortion. A tax on land rents, for instance, does not make the land go away. Rents nowadays take many forms, e.g., they are collected on the value of natural resources like oil, gas, minerals, and coal, and even derived from the exercise of monopoly power. A stiff tax on all these *rents* would not only reduce inequality but also reduce incentives to engage in the kind of rent-seeking activities that distort the economy. This also means removing incentives for taxpayers to change their behaviour to take advantage of tax reliefs.
- An inclusive tax policy must address the *moral hazard* problem effectively. This is where government support to the private sector (e.g., subsidies) gives corporates license to take excessive risks (e.g., banks creating and allocating credit while yet maintaining an implicit or explicit guarantee that the state would underwrite any major losses).¹⁰ Providing such incentives has often resulted in *anti-social* conduct. Either the state must eliminate private sector incentives involving moral hazard, and/or it must ensure that the private sector *does its part* in the assumed trade-off between state support and the private sector's obligation to help meet the collective economic goals of the community; monitoring it closely.
- Continue (or even raise) gift and inheritance taxes as a matter of social policy for a redistributive effect to spread the benefits of the generational accumulation of wealth.
- Fiscal policy must not, in principle, induce a culture of dependency, unproductivity (failing to provide an incentive to work), or become an inefficient facilitator of public funds. The government providing *grants or social welfare* is an example of this. While they are often hard to avoid, there must be an intentional state strategy to *wean* such dependence as part of a regressive system, allowing the grants to get smaller as income increases, but not to the full extent of the increase so that there is always a positive incentive to earn more.
- Apart from being a source of public revenue, *excise taxes* can play a socially beneficial role by reducing the use of harmful commodities

¹⁰ It is *ironic* that Keynesianism – long hailed as the saviour of capitalism – may have turned into the key instrument of its ultimate ruin, setting it on a wrong path (private dependence on public subsidy); now reinforced by neoliberalism.

- such as tobacco and alcohol. In principle, revenues should be tied to these positive social functions yet managed with consideration.
- The purpose of a gasoline or *fuel tax* ought to be to make users pay for the transportation system that should be built and operated for their benefit. In addition, there are social, ecological and economic reasons to discourage the use of private transportation (if possible) as it competes with other uses of the diminishing supply of oil.
 - *Value-added tax* (VAT) is recommended, i.e., the value added to products by labour as they are processed at each step of their production. Keeping it way below 20% is important, though. The value added by labour and jobs is something *we want more of*, so it should not be over-taxed. Since taxing labour income tends to reduce labour supply and tends to reduce the demand for labour, it should be carefully managed so as to progress towards full employment (which will eventually help to spread the tax burden).
 - Property tax is recommended but must also be kept as low as possible to prevent double-taxing (e.g., sales or income). A proposal here is for *differentiated treatment* of land and buildings in property taxation. Lower tax on buildings and higher tax on unused land will encourage productive land use and renovation or good maintenance of buildings. Land should be taxed at a higher rate than improvements. Hence, using agricultural land as an example, it must be taxed on its improved value, not on its increased value resulting from regenerative farming practices.
 - Future-proofing the tax system through reforms to *adapt tax systems* to globalisation and technological change, especially with respect to the changing world of work, is crucial. This requires a systematic approach to ensure improved *integration* of the tax system to prevent poor tax policy choices and sub-optimal economic and social outcomes that do not cater for future changes. It requires tax policy to be considered within a broader framework of structural reforms for inclusive growth and an innovative, inclusive economy.

As part of *inclusive tax reform* and enabling productive economic inclusivity, a general aim is to *reduce* overall taxes significantly by broadening the tax load to gradually lessen the tax burden on each citizen. A major balancing concern, though, is the astronomical build-up of national debt levels, which has been worsened by tax reductions (to mostly win over more votes). The national budget must be *balanced*, including debt servicing, and this balancing should not be at the expense of the poor.⁷⁷⁴

Prioritising debt reduction is not just for medium-term benefits, although it will ask for sacrifices in the short term (e.g., consumption), but for preventing a heavy burden from being bequeathed to our children and grandchildren in the long run. Once the national debt is substantially reduced, taxes should be lowered.

This forms part of *decentralising* the economy and shifting economic as well as political power to more local levels and closer to where people on the ground can hold any abusers of power directly *accountable*. As capacity at local levels grows, much of the tax management and decisions can move from national to regional and local government levels. For instance, responsibility for education, health, safety, agriculture, roads and highways, and even welfare programs (aid for the disabled, unemployed, childcare and addicts) can move to *local* levels.

Encouraging public debate on income and tax levels is good for participatory governance. Strengthening the local community is one of the *primary aims* of building an inclusive economy. Notably, the bottom-up goal of building larger levels of society (greater inclusivity) from smaller ones (e.g., the family or community as a model) could be expressed in such a tax structure.

What is not preferred is when certain services are performed by the government but benefit only certain segments of society. In that case, it is only proper that they be paid for by the user at their true cost. Current public services should be reviewed at all levels with a view to expanding *users' fees*. Where state services could be performed equally well by the private sector, the government should withdraw from the activity in question, allowing for labour inclusivity (new employment) by private sector initiatives.

Raising public funds should be a function of attaining public goals in the public interest (not the state's). Creating opportunities for *inclusive business* is part of it. Healthy communities require healthy businesses. Taxes to internalise externalities should also be combined with a decrease in government regulations. In this way, for example, severance taxes would increase resource productivity, while the land tax would encourage efficient use of space.

As a tangible aim to work towards, research found that an acceptable ratio of inequality is roughly 1:10 so that the rich do not have more than ten times the income of the poorest.⁷⁷⁵ The goal of an inclusive economy is not equality but *limited inequality*. Complete equality is the socialist's denial of true differences in any community; unlimited inequality is the individualist/capitalist's denial of

interdependence and true community solidarity. The balance is found in the economy's origin: *oikonomos*.

One area to strongly consider with inclusive tax reform is stimulating the economy within the confines of the debt and deficit, even if the government cannot increase its overall size. This takes advantage of *multipliers* in the economy. It can benefit from, as Stiglitz explains,

the extent to which different taxes and expenditures stimulate the economy, spending more on programs that have large multipliers (where each dollar of spending generates more overall GDP) and less on programs that have small multipliers; raising taxes from sources with low multipliers while cutting taxes on those with high multipliers.⁷⁷⁶

For example, if the state spends on paying unemployment benefits, especially for those who have been unemployed for a long time, being strapped, they will spend all the money they get in the economy. Raising taxes on the very rich reduces spending significantly but lowering taxes at the bottom increases spending much more.⁷⁷⁷ Making the tax system more progressive not only *decreases inequality* but also stimulates the economy. As Stiglitz states: "Trickle-up economics can work, even when trickle-down economics doesn't."⁷⁷⁸

When *broadening the tax base*, the underlying need for revenue-neutral reform is critical. When tax reliefs are given, tax rates have to be higher than otherwise because, in standard economic theory, the deadweight loss from taxation increases by the square of the tax rate.⁷⁷⁹ There is thus a strong presumption (apart from cases where reliefs play a role in correcting externalities) that reforms that enable a reduction in tax rates will increase economic efficiency. Broadening tax bases *simplify* the tax system by reducing exemptions, allowances, credits and/or rates differentiation, thus reducing compliance costs related to individuals and businesses with regard to tracking tax-preferred activities. Bert Brys et al. further explains:

Broader tax bases may also be more effective in terms of achieving higher levels of taxpayer compliance and reducing opportunities for tax avoidance, in turn enabling lower tax rates (for given revenue needs) and improving horizontal equity. Tax bases could be broadened in particular by removing tax expenditures that are not well-targeted at redistributive goals.⁷⁸⁰

This (and more) is summarised in Figure 6.5, indicating tax policy reform toward creating an inclusive economy. Workers in a number of countries would benefit from reductions in payroll taxes and the safety net of social security contributions (SSCs), which could be financed by *shifts* in the burden of social protection financing away from SSCs and onto other tax bases. Earned-income tax credits (EITCs) and SSC reductions that lower the labour *tax wedge* and thus raise after-tax earnings are uniquely effective for workers that tend to have high labour supply elasticities, which include young and older workers, women, low-skilled workers and single-parent households.⁷⁸¹

Preserving the *care* aspects of society and promoting justice and the growth of labour absorption, SSCs should be co-financed on the basis of capital strength, not just labour strength. Levying employer premiums on the basis of the *net added value* of a company provides a more solid foundation for assessing employer obligations than levying premiums based on the number of employees still working at a firm.⁷⁸²

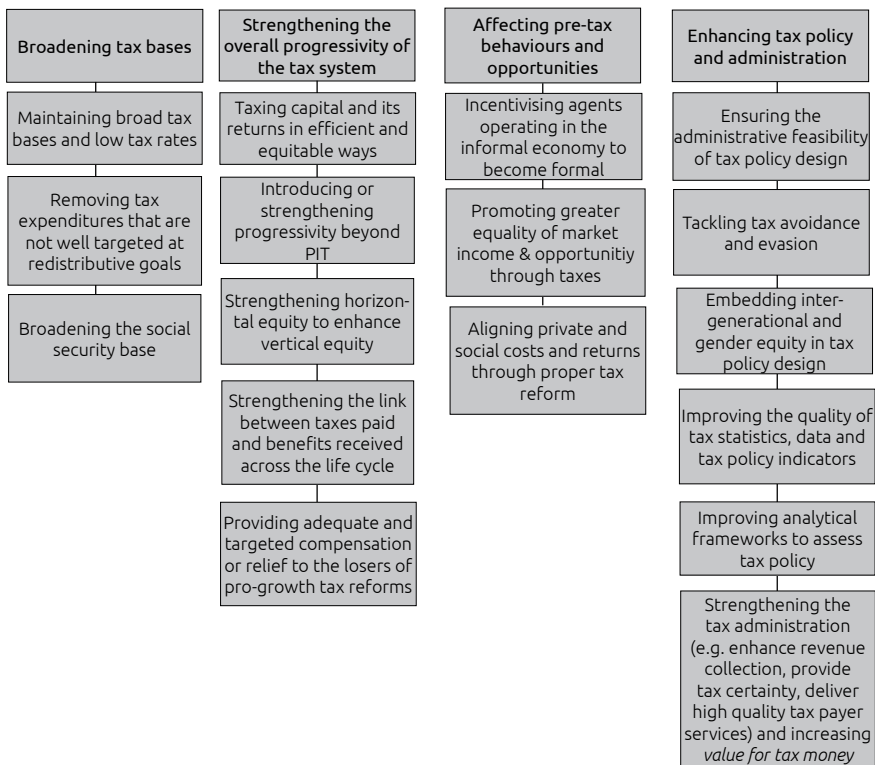


Figure 6.5: Tax policy reform opportunities and design principles for an inclusive economy (Source: Brys et al. 2016)⁷⁸³

A concern in the labour market is the increased *informality* of work (short-term, contract basis), which needs to also be addressed through a combination of tax policies (to reduce job insecurity). This requires fostering high-quality jobs. As the OECD states: “Workers employed in the informal sector have limited access to social protection, are typically offered inadequate contracts and earn comparatively lower wages, and are more vulnerable when they lose their job or when they retire.”⁷⁸⁴

Addressing informality of employment is a *complex* issue and needs a combination of tax policy and tax administration initiatives to promote firm formalisation, plus other measures. Such measures can include targeted audits and conditional cash transfers. In a broader sense, the labour market can be made more *inclusive* through the following *taxation initiatives*:

- *Reducing structural unemployment* by reducing marginal tax rates for those with low skills and low propensity to work (this could, for instance, be achieved through an expansion of in-work benefits such as EITCs).
- *Reducing tax rates for low-income workers* can reduce regional inequalities by providing benefits to firms that employ large numbers of low-skilled workers, benefiting these workers in turn.⁷⁸⁵
- *A tax system that supports the labour market participation* of second earners (who are in most countries more likely to be women and are often taxed at high marginal rates relative to primary earners) by providing stronger incentives for second earners to work (removing spousal allowances) and targeting tax concessions at second earners, plus levying personal income taxes on an individual basis (especially for households with children).⁷⁸⁶
- *Careful attention to the taxation of small and medium-sized enterprises* (SMEs) can create scope for new job opportunities by incentivising growth, and fostering innovation that can raise wages and productivity, thus also possibly contributing to the quality of these jobs.

The reduction of inequality encourages social inclusion, which, itself, has potential welfare benefits but requires pro-poor policies to ensure, through improved income redistribution, that lower inequality actually leads to greater *social inclusion*. Pro-poor tax policies can make meaningful contributions here. While there are attendant costs related to redistribution, it is more likely to reduce income inequality than economic growth. As Philip Lawn highlights, “the reduction of

inequality can also reduce the poverty elasticity of national income so that future growth has a greater impact on reducing poverty levels.”⁷⁸⁷

One interesting area to explore is called “smart redistribution” to take inclusive tax reform a step further. Since technology is increasingly making the transparency of monetary flows possible, a system in which taxpayers would be able to track the spending of their tax payments would result in much higher commitment. Smart redistribution would take this a step further by empowering taxpayers to become actively involved in the *welfare choices* of society by deciding for themselves where to allocate their contributions.⁷⁸⁸ With the state then becoming a *manager* of funding choices/options offered to taxpayers, the latter are *reconnected* to the progress and tangible impact of their tax payments, thus creating incentives to invest more in overall well-being.

This restores the meaning and purpose of paying taxes in a socially inclusive way. Just as we can design a tax system that raises more public revenue to enhance efficiency and equality, so too the other side of the equation (expenditures) must focus on achieving the same goals. Taxation policy should be managed in such a way that it helps to *remedy* today’s economic dilemmas and start solving tomorrow’s fiscal worries.

Wasteful production (including *valueless* or *non-sense* products) and overconsumption must be curbed to acquire the benefits of a steady-state economy (without necessarily being as such). As Ayodele Odusola states: “Fiscal policy should be used to promote growth that is job-rich, skills-enhanced, and human capital-driven since these tend to reinforce long-term growth, shared prosperity, social cohesion, and create more fiscal space.”⁷⁸⁹

Reform monetary and financial systems for stability

Now that we’ve seen how fiscal policy and tax reform can be employed for inclusive redistribution of income, can monetary policy be another avenue for redistribution of wealth in an economy? That is, can reform of monetary policy and financial systems also contribute to *better stewardship* of resources so that more people can benefit from the wealth that is generated through those instruments/systems? Genuine economic progress requires financial stability.

Monetary policy is used by central banks to *protect* the value of their currencies (mainly through using interest rate changes) to prevent inflation (i.e., a decrease in the buying power of money). The financial system was created as an intermediary function in the

economy, initially to keep money safe (in banks), but later on through investment banks and merchant banks, to create or multiply wealth in financial markets, to use financial instruments, and to collaborating with other financial institutions.

Stability is vital, yet it has become *complicated*, as we have seen with the GFC and the deregulation (and other financial crises) that preceded it. Financial reform became all the more crucial, but in a neoliberal climate, it always tends to slide back towards liberalisation (and increased risk-taking). Although the functions of money are quite simple (medium of exchange, unit of account and store of value), its complexity and that of the financial system it is the lifeblood of has caused much *uncertainty* about its ability to perform these functions in the long run, especially in the absence of a backup such as gold or silver (e.g., Gold Standard). Indeed, as Herman Daly and Joshua Farley contend, “Anyone who is not confused by money probably hasn’t thought about it very much”.⁷⁹⁰

Before recommending inclusive monetary and financial reform proposals, the following typical misconceptions about money and finance needs to be pointed out so that *clarity* is gained about what genuine progress and redistribution involve in this regard. They are concisely stated as follows:⁷⁹¹

- *Misconception 1: Money is wealth.* Money is not real wealth; it is a claim on wealth. Real wealth takes the form of real resources (housing, land, fertile soil, medical care, computers, etc.). Money itself has no intrinsic value; its value is derived from the fact that it is accepted in exchange (fiat) for real wealth. Inflation mostly occurs either when the money supply increases to levels much higher than real wealth or/and when there is too high demand for real wealth (and prices go up). As claims for wealth increase, the need for economic growth increases. But here’s the concern: *What if growth stagnates?* Growing the economy has been the strategy for preventing the financial system from collapsing but isn’t it a case of the tail wagging the dog? Money should serve the economy, not be its master.
- *Misconception 2: Governments are the primary money creators.* Many think that all money originates from being printed and coined, but actually, that makes up a small percentage of the money supply in most countries. While central banks, not governments, create a portion of the money, it is even more so *created* by private banks in the form of interest-bearing loans (by a simple trick of bookkeeping). By extending loans (digital money), the banks create

money *through* the repayment of those loans and the interest on them. The money did not come from the bank's vault; it came from a few strokes on the computer (after assessing if the borrower can pay it back) by essentially transferring the money into a person's account (so he/she can buy *real wealth*). The borrower must earn money plus interest by working (to stimulate growth). Only by creating more debt (loans) can large-scale defaults be prevented (or postponed) and the financial system continues to function since loan recipients must *pay back more* money than they borrow. The current method of creating money is highly risky and places further pressure on taxpayers (often the very same borrowers) to bail out the financial system (government using fiscal policy as *backup*) in times of crisis; the risk of which is increasing due to the upward spiral of debt and inflationary pressure.

- *Misconception 3: The current financial system needs to be maintained for economic health.* The economy surely needs financial institutions to facilitate the flow of funds, and they deserve to earn a modest return. What is questioned is how they are using a variety of intricate financial instruments to create and redistribute money to themselves at great cost (and high risk) to the rest of society. Their excessive profits (as exposed during the GFC) through speculation create a *fragile system* that needs reform. In a phenomenon called "financialisation", financial sectors in many countries are accounting for more and more of their nations' total economic activity, but it is questionable whether their myriad financial transactions have actually produced real wealth. Failing to *understand* that they are a sub-system of the economy, which is a sub-system of human society, which is a subsystem of the biosphere, financiers are driving global processes that put life on earth at risk.

While this might be the most *effective* system of wealth creation in all of human history, it comes at a high price due to the excessive risk that it adds to society and the high concentration of wealth in the hands of a few (which worsens inequality). Today's sophisticated financial system might be the primary reason, together with technological innovation, for the rapid increase in global wealth (so-called) in the past century and a half, but it clearly needs *reform*. The tower is getting too high and the base too narrow.

For the economy to become truly inclusive, it will require a different sort of monetary system. To get there, however, gradual but intentional reform is needed. First, the question: *What should we be*

aiming at? As John Fullerton (who went from Wall Street insider to Wall Street reformer) said, “If there are limits to economic growth, then there are also limits to debt and limits to investment”.⁷⁹² A sensible *aim* is to move towards a monetary and financial system that respects these limits, a system that provides real stability, genuine economic progress and better redistribution of income, instead of (one that depends on) growth at all costs.

In light of these insights and keeping the main objective in mind, three major proposals for *reform* in monetary policy and the financial system are suggested, focusing on these (non-exhaustive) areas: changes at the institutional level, national level and local economy level. They could be seen as policy priorities to be gradually phased in or encouraged.

The *first policy proposal* involves the *restructuring of financial institutions*. Both the monetary system and financial institutions have a responsibility to serve the interests of society and provide a framework for economic transactions that does not breach ecological limits and/or ethical norms. Consistent with Ubuntu, reform of the monetary and financial system should *aim* at least to:⁷⁹³

- balance claims on wealth with the supply of real wealth;
- promote local level production and consumption;
- provide greater equality within and among different economies;
- encourage commerce that corresponds to ecosystem capacity; and
- transform and establish more inclusive and democratic financial institutions.

It is critical that financial institutions *do their part* in following suit and aligning their operations with aims like these so that they can be properly integrated into a sustainable and equitable monetary system. A restructuring of banks within the banking sector may occur in these three areas:⁷⁹⁴

- *The need to decrease the size and power of financial institutions.* A change that is needed is to prohibit (or at least discourage) banks from issuing money as debt. One practical area is to gradually increase their reserve requirement so that banks are not able to *create* money out of thin air, so to speak. The practice of creating money as debt should be frowned upon by authorities (just as they do with counterfeiting). Central banks can play a stronger role in the *creation* of money but within democratic limits (explained below). It is important that the money is created debt-free and that it can be transferred to the government to spend into existence.

Tempering the power of banks is key to improving their public accountability. Instead of focusing on using money to make more money, bankers have to be focusing on serving a stable economy, an equitable society and a healthy biosphere.

- *A tax on international financial transactions.* Also called a “Tobin tax”, this would further dampen the *wheeling-and-dealing* culture of banks. Defined as a tax on all spot conversions of one currency into another (disincentivising short-term currency speculation), it requires that banks pay a percentage of financial transactions to the state as part of public revenue. Taking the lead in this, the French government has announced plans to collect a tax of 0.1% on financial transactions, hoping that the other countries will follow suit.
- “What should be the right level of profit for banks?” Imagine if banks were to ask the same question that was asked at Mars, Inc. The GFC revealed the disproportionate amounts of profits many banks were making, resulting in the public and regulating agencies calling bank CEOs to account. Banks have a unique opportunity, as trusted institutions, to make significant contributions to society from a *redistributive* perspective. They can also show leadership in ensuring that profits are restricted, especially in times of economic distress. Then, also part of institutional restructuring is *re-examining the functioning of the central bank*. This is not to question its primary roles (lender of last resort, preventing inflation and monetary stabilisation) but to consider how it can become more accountable as a public institution for the sake of inclusivity, legitimacy and efficiency. Being responsible for monetary policy, the central bank needs to remain independent (of political interference), but is it *democratically accountable*? As Stiglitz states, for central banks, “it is convenient not to be accountable, to be independent”.⁷⁹⁵ He goes on to say: “In any democracy a public institution – and pretend as it might, a central bank is a public institution – must have some degree of accountability. There must be oversight to make sure that there is no malfeasance, and that the central bank functions in accordance with its mandate, and that the mandate in question is in accord with the public interest”.

Currently, a central bank’s Committee decides on monetary policy changes (e.g., to change interest rates or not). The members of this Committee are chosen in a non-transparent process that gives the public little or no say. The inconvenient truth is that many central banks are *captured* as a result of *revolving doors*, i.e., where the

regulators come from the regulated sector (e.g., the central bank or the banking sector) and, after working as a regulator, return to it. It is called “cognitive capture”, in which the regulator comes to adopt the mindset of the regulated. What it means is that they influence each other (e.g., central banks and regulating agencies).

The institutional arrangements through which decisions are made will have to *change*. Monetary policy reform should, therefore, include changes to enable the public to democratically elect the central bank Committee making the decisions and/or appoint their own team of *technical experts* to monitor the Committee’s decisions to objectively evaluate if they are truly made in the public’s best interest. Too often, as Stiglitz points out, “macroeconomic and monetary policies that result in higher unemployment – and lower wages for ordinary citizens – are a major source of inequality in our society today.”⁷⁹⁶

The *second policy proposal* comprises *moving towards a debt-free currency*. Apart from the recommendation of changing the policy concerning banks’ reserve requirement (from moderate changes to more substantial upward changes in the percentage of reserves to be held), *another step* in the direction of moving to a debt-free currency is separating savings and investment.

The Glass-Steagall Act was incorporated in 1933 in the US Banking Act, which determined that commercial banks are *prohibited* from speculative investment activities, and investment banks are prevented from taking deposits. Since the 1960s, however, this line became blurred through deregulation, allowing much more risk-taking by commercial banks in securities trading.⁷⁹⁷

The proposal is that this Act is instituted in banking sectors so that a customer must either choose to save money by depositing it in a commercial bank, where it should remain without (or with less) being loaned or invested; or choose to invest money through an investment bank and earn interest and returns at higher risk (or have separate accounts at separate banks for different purposes). Progressing towards the debt-free aim, the customer would have no/limited access to the money until the loan was repaid. Separating high-risk from low-risk banking activities will add vital *stability* to the banking sector.

Another step is, “as the public reclaims the power of money creation, the priorities for investing in newly created money should be determined democratically”.⁷⁹⁸ Money could, for instance, be used to build the infrastructure for a low-carbon economy (e.g., public transport and improved electricity transmission grids) or to finance social programs (e.g., quality education).

A *fourth step* could be to establish a closer link between monetary and fiscal policy in the sense that if inflation increases and prices rise, money could be removed from circulation using taxes. On the other hand, if prices were to fall, further money could be created and spent into existence.⁷⁹⁹ This change in the system would enable the volume of money supply, and therefore inflation, to be *stewarded* more directly than is possible with the current debt-based financial system.

A *third policy proposal* entails *monetary changes and opportunities at the local level*. One possibility is to create a local currency, which is “money that is issued by a community and valid for transactions only within that community”.⁸⁰⁰ It can function as a substitute for the national currency in local transactions if businesses agree to accept it, community members are willing to use it frequently (preferably always), and if a bank or local exchange provides a service to switch it for units of the national currency.

The social and environmental *benefits* of such a system are quite surprising. As evidenced in numerous communities around the world, including Berkshire in Massachusetts (BerkShares currency) and the Brixton Pound on the south side of London, it has become more common than one would think.⁸⁰¹ Since the local currency is accepted only within a specific area (even in an online community), its use encourages the purchase and production of local products and services. As the *circulation* of the currency increase among people and businesses within the community, more benefits are gained, and less money drains out while more money is drawn in (converted into the local currency).

This stimulates the local economy because such circulation is a basic principle of wealth creation. Increased use and mutual support for meeting economic needs improve community *trust and cohesion*. Community security is also built, meaning that if the economy or currency outside the community collapse/weaken drastically, the local currency’s value can be protected and may even rise (as demand increase) in times of financial uncertainty in the broader monetary system. It provides a kind of backup system.

Community dependence on goods and services from outside will also reduce as local entrepreneurship and business are stimulated. Apart from the social and environmental benefits (e.g., more local produce and better management of natural capital), an important step for promoting the circulation of local currencies is for governments to accept them for *tax payments*. Bristol, in the UK, is an example of where the local government decided to take this step, and it has led to

the Bristol Pound becoming more accepted in mainstream economic activity among residents and businesses.

Another opportunity for *decentralising* the economy and the financial system is establishing locally-owned community banks (or mutual banks) and village banks, the latter being part of the microfinance industry. Many of these banks have been quite successfully implemented in South Africa.⁸⁰² Apart from enhancing local ownership and independence, it has contributed to shaping a culture of inclusivity.

What the monetary system need is the *opposite* of financialisation (i.e., reducing the dominance of banks in economic activity) to counter the concentration of financial power. Such reform is not expected to originate from bank boardrooms or even governments¹¹. It will be up to *citizen action* (pressure from below) to push for an alternative macroeconomic and monetary framework.

If we want to see a more equal distribution of income and real changes to the financial system, there are two requirements: citizens must become *fully informed* of how inequitable and unsustainable the debt-based system is (then changing it will be easier); and as the GFC gave a glimpse of, a *crisis* generates the desire for change, meaning that we'd better be prepared. As Milton Friedman wrote,

Only a crisis – actual or perceived – produces real change. When that crisis occurs, the actions that are taken depend on the ideas that are lying around. That, I believe, is our basic function: to develop alternatives to existing policies, to keep them alive and available until the politically impossible becomes the politically inevitable.⁸⁰³

Real hope is expressed by Rob Dietz and Dan O'Neill and echoed by many others: "The era of ecologically sound economics will be fundamentally different, with changes in who creates money, how it circulates, how it is invested, and how benefits from its use accrue to people across society."⁸⁰⁴ Simply stated: more must benefit.

11 It is important that governments, in truly representing the people through an inclusive government, protect their jurisdictional duties so that international institutions don't dictate/prescribe to them what financial decisions to make.

Building capacity through innovative policies: Technology and inclusive development

Genuine economic progress requires innovation and a development approach that is defined by its inclusivity. Innovative policies are needed to shape a *new development model* that pursues overall well-being as the ultimate objective of progress. This embodies Ubuntu. Such a development model, as Fioramonti explains, must be one “that integrates rather than separates social and natural dynamics”.⁸⁰⁵ Nature provides so many resources and services free of charge every day, which is essential to economic activity. They must, as he continues, “become fully valued components of society’s infrastructure, supported by new, horizontal networks of governance that connect people more closely to the natural ecosystems in which they live and work.” The reality is that there would be no food, no energy, no production by any means without rainfall, irradiation, minerals and an endless list of provisions we derive *miraculously* from our planet.

In an inclusive economy, “development lies not in the exploitation of natural and human resources but in improving the quality and effectiveness of human-to-human and human-to-ecosystem interactions, supported by appropriate enabling technologies”.⁸⁰⁶ As we enter the 4IR, human development hangs in the balance. On the one hand, as Klaus Schwab asserts, there is a *tremendous opportunity*:

We stand on the brink of a technological revolution that will fundamentally alter the way we live, work, and relate to one another. In its scale, scope, and complexity, the transformation will be unlike anything humankind has experienced before. We do not yet know just how it will unfold, but one thing is clear: the response to it must be integrated and comprehensive, involving all stakeholders of the global polity, from the public and private sectors to academia and civil society.⁸⁰⁷

So, just as much as the 4IR can raise global income levels, it could, on the other hand, yield *greater inequality*, particularly in its potential to disrupt labour markets, e.g., the displacement of workers by machines, which may exacerbate the gap between returns to capital and returns to labour.⁸⁰⁸ This means that *well-being* in the 4IR urgently requires inclusive businesses, inclusive societies (undergirded by a collaborative economy) and inclusive governance.

Strong *policy intervention* will be necessary to ensure, rather, a net increase in safe and rewarding jobs to secure equitable income

distribution and fair resource allocation. This *new development model* has the challenge and the unique opportunity to harness the exponential progress potential of the 4IR in favour of human inclusivity (enabling more access to more people, sustainably) rather than increased exclusion by those who cannot afford access.

Proactive and innovative development *policies* are needed to steer this situation in the right direction. Skilfully using enabling technologies to support human development in integrative ways (strengthening human relations, people's responsibility to nature and mastering machines) for the purpose of raising overall well-being will *define* the future of humanity in the 4IR.

Jeffrey Sachs describes the new paradigm and the approach it will require well:

The twenty-first century can be a century of shared prosperity, a great convergence ... The global economy can be marked by a narrowing of the income gap between rich and poor countries, not because of a decline in incomes in the richer societies but because of a rapid catch-up by the poor. Shared prosperity would not only mean the end of massive and unnecessary suffering among those who are now trapped in extreme poverty but would also mean a safer and more democratic world as well, with rising incomes underpinning political stability and increasingly open societies. ... The fundamental reason for believing that prosperity can spread to all corners of the world is that the very science and technology that underpin prosperity in the rich world are potentially available to the rest of the world as well. ... the same improved technologies [as in the rich countries] can also be adopted in today's impoverished countries. ... technology has the wonderful property of being non-rival; each person, business, or country can adopt the technology without limiting the ability of others to adopt the technology as well.⁸⁰⁹

Since there will always be trade-offs and negative externalities, the design of a new development strategy must combine and balance inclusivity and innovation. It is crucial that *development policies* fully comprehend and implement the principles and aspects of inclusive development to make the structural changes to the economy so that marginalised people's capabilities be vastly improved and fully utilised in the new economy.

Policies steering the economy towards a smart circular economy

The concept of a circular economy has gained substantial momentum over the past two decades, with growing interest from businesses, governments and researchers. It essentially comprises three principles: ‘design out waste’ and pollution; keep products and materials at their highest value and regenerate natural systems.⁸¹⁰ The economic, environmental and societal *benefits* of a circular economy are becoming increasingly evident. They include providing smart solutions to escalating resource-related challenges, generating inclusive growth and new job opportunities, and reducing negative environmental impacts such as carbon emissions.

What is unique about the circular economy is that creating value is increasingly *decoupled* from consuming finite resources. It offers the potential to create an economy that is distributed, diverse and inclusive to a wide variety of organisations: small and large, local and global, private and public. This makes *policies* steering the economy’s evolution towards fully adopting circular economy principles of utmost importance for economic sustainability and inclusivity.

A key question in this regard from a policy perspective is: It took us almost 80 post-World War years to build a petroleum-dependent and suburbanised world; can we retool and rebuild in a sustainable way? Given that we are overshooting our ecological ceiling and that we are experiencing shortfalls in terms of society’s social foundation, as Kate Raworth points out in the *Donut Economy* model, policy intervention with inclusive policy tools has become crucial.

Ten monitoring indicators to help with a policy framework for this have been identified (see Table 4.1 in Chapter 4) to provide a broad picture of the key *leverage points* to increase the circularity of the economy. They help, as a starting point, with establishing meaningful *baselines* for circular economy policy decision-making. They could greatly assist in monitoring future developments and keep informing the policy-making processes.

Grouped into four categories, these indicators to be used for generic application are as follows: *production and consumption* (self-sufficiency for raw materials, green public procurement, waste generation, and food waste); *waste management* (overall recycling rates and recycling rates for specific waste streams); *secondary raw materials* (contribution of recycled materials to raw materials demand, and trade in recyclable raw materials); *competitiveness and innovation* (private investments, jobs and gross value added, and patents).⁸¹¹

Since up to 80% of products' environmental impacts are determined at the design phase, the linear pattern of *take-make-use-dispose* doesn't provide producers with adequate incentives to make their products more circular. Many products break down too quickly, cannot be easily re-used, repaired or recycled, and many are made for single use only.

In order to make products fit for a climate-neutral, resource-efficient and circular economy, reduce waste and ensure that the performance of front-runners in sustainability progressively becomes the norm, sustainable product policies are necessary. The following *sustainability principles* are suggested to guide such a *product policy* within a circular economy:⁸¹²

- Enhancing product durability, re-usability, upgradability and reparability, removing hazardous chemicals in products, and increasing their energy and resource efficiency.
- Increasing recycled content in products while ensuring their performance and safety.
- Enabling remanufacturing and high-quality recycling.
- Reducing carbon and environmental footprints.
- Restricting single-use and countering premature obsolescence.
- Introducing a prohibition on the destruction of unsold durable goods.
- Incentivising *product-as-a-service* or other models where producers keep the ownership of the product, or the responsibility for its performance, throughout its lifecycle.
- Mobilising the potential of digitalisation of product information, including solutions such as digital passports, tagging and watermarks.
- Rewarding products based on their different sustainability performance, including the linking of high-performance levels to incentives.

Other *policy priorities* for moving towards a circular economy include:

- Empowering consumers and providing them with cost-saving opportunities (to enhance the participation of consumers in the circular economy).
- Improving circularity in production processes is an essential part of a wider transformation of industry towards climate-neutrality and long-term competitiveness (as also part of a strategy for SMEs).
- Optimising product value chains (through enhancing stakeholder collaboration to identify and overcome value-chain barriers in order to expand markets for circular products).

- Driving the transition to a circular economy through research, innovation and digitalisation by means of *safe-by-design* approaches, circular business models and new production and recycling technologies (e.g., digital technologies can track the journeys of products, components and materials and make the resulting data securely accessible for research and product development).

Policies that facilitate circular economy processes must be fit for the digital age and the *green transition*. As Figure 6.6 shows, circular economy innovation is what must bring different role players and spheres together.

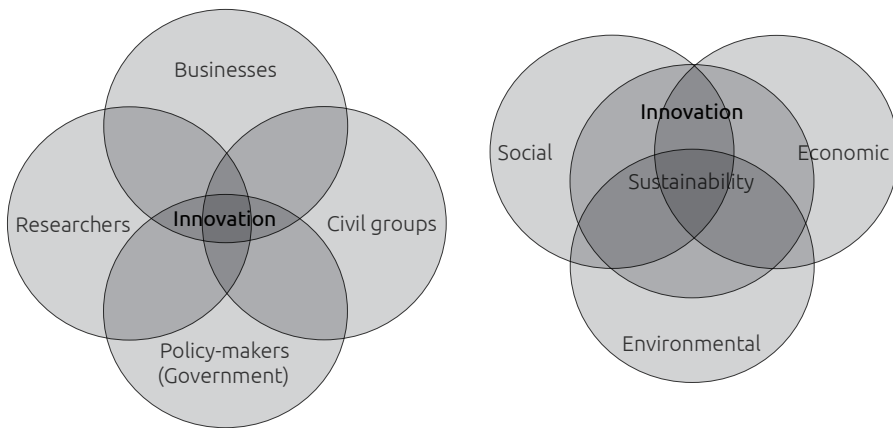


Figure 6.6: An integrated circular economy through innovation (Source: Hysa et al. 2020)⁸¹³

Technological innovation working in tandem with different *public policies* in different economic sectors (for integrative purposes) is paramount for bringing the circular economy vision to life. For example, “intelligent and connected assets can enable predictive maintenance to prolong the asset life; blockchain can create traceability and transparency in supply chains to reduce waste; and repair is made easier by 3D printing of spare parts”, all assisted by policy.⁸¹⁴

AI, as an emergent 4IR technology, can support and accelerate the pace of human innovation to design products, bring together components of effective circular business models, and optimise the infrastructure needed to *loop* products and materials back into the economy. Utilising AI capabilities could create a leapfrog change that goes beyond realising incremental efficiency gains to help shape

an inclusive and sustainable economic system that is regenerative by *policy design*. The ability of AI to help solve problems has grown enormously, partly due to substantial increases in processing power and the availability of data.

In 2016, AI already attracted between 26 billion USD and 39 billion USD in global corporate investments, *fuelling* its advancement and dissemination; and AI is predicted to add an extra 13 trillion USD to global economic activity by 2030.⁸¹⁵ AI capabilities can help the private and public sectors build a circular economy at a faster rate than would be possible without it. AI can stimulate the development and design of completely new *circular* products and businesses. Equally, it can help conventional as well as inclusive businesses in their transition to becoming more circular. Across industries, AI technologies can unlock three high-potential circular economy opportunities:⁸¹⁶

- design circular products, components and materials;
- operate circular business models; and
- optimise infrastructure to ensure circular product and material flows.

Building on the smart circular economy framework in Chapter 4, the following *smart circular economy matrix* (in Table 6.3) can be composed to assist policy-makers with sequencing their policy processes regarding the circular economy; starting at what is generic and then moving up to the *information* (smart) phase, the *knowledge* (smarter) phase and then to the *wisdom* (smartest) phase, taking into consideration the development of new and alternative approaches in the circular economy market, following a process (on the horizontal pane) of reinventing, rethinking and reconfiguring, and restoring, reducing and avoiding.

Complementary to the smart circular economy matrix, policy-makers can make use of what is called “material flow assessment” (MFA). According to Lawn, “the main purpose of economy-wide MFA is to provide aggregate background information on composition and changes of the physical structure of socio-economic systems.”⁸¹⁷ MFA is a useful methodological framework for analysing economy-environment relationships and deriving integrated environmental-economic (*eco-efficiency*) indicators.

These indicators provide *policy-makers* with information to help shift the policy focus from purely monetary analysis to integrating biophysical aspects.⁸¹⁸ Material flow-based indicators are used for identification and evaluation of environmental and sustainability

Table 6.3: Smart circular economy matrix to assist policy-making

Phase	Description	Reinvent (the paradigm)	Rethink and Reconfigure	Restore, Reduce and Avoid
Wisdom (<i>smartest</i>)	Prescriptive (resource optimisation)	- Virtualisation removes basic constraints regarding time, location and human observation via liquefaction, resource density and digital materiality. - <i>Liquification</i> (digitisation): is the separation of data from the physical resources, enabling data to be easily relocated and re-used for different purposes. - <i>Digital materiality</i>: refers to what the physical resource can do by manipulating its virtual representation via software. - Simulate new, alternative approaches in a circular economy market. - Reduce costs; save resources.	- Provide foresight value by predictive analytics, aiding circular business models via pre-emptive decision-making and navigation of strategic goals. - Provide oversight value through discovery analytics (e.g., new trends). - Provide insight value through diagnostic analysis (to find out why something happened). - Provide hindsight value through descriptive analytics by clarifying what has happened. - General decision-making support for asset evaluation and business co-evolution.	- Raw materials and sourcing: - Automatic gathering and processing of real-time data for higher overall efficiency. - Increase yield of biomass (e.g., smart farming). - Pre-empt changes to sourcing and value chain dynamics. - Biomass health and growth. - Identify new scenarios for the application of different grades of raw materials. - Land and biomass condition. - Identify waste-to-resources patterns (industrial symbiosis) - Determine the application of raw materials (higher impact) - Automated location tracking and monitoring of natural capital (big data input-output) - Monitoring GHG, air quality
Knowledge (<i>smarter</i>)	Predictive (improvements to resource)			
Information (<i>smart</i>)	Discovery (explore better resource use)			
Generic benefits applicable to all the levels (data and connected resources)	Diagnostic (analysing what happened to a specific resource). Descriptive (what for is the resource)			

(Source: Kristoffersen et al. 2020)¹⁰⁰⁸

policy strategies. Aligned perfectly with the principles of Ubuntu, the areas in which this can typically occur are:⁸¹⁹

- *Integrated sustainability modelling.* Economic models can be expanded by environmental data in physical units (such as material flows, energy consumption or land use) in order to consider environmental aspects in the evaluation of what *policy improvements* to make concerning economic development strategies.
- *Globalisation, trade and environmental distribution.* For example, when illustrating the ecological consequences of economic specialisation in the division of labour between different world regions and the resulting trade effects on the environment and society.
- *Micro-macro links and analyses of rebound effects.* For instance, although there are eco-efficiency measures at the macro level, production and consumption patterns at the micro level determine the development of aggregated material flow-based indicators. A *rebound effect* is when higher material and energy efficiency results in lower production costs and real savings to customers, then overall demand for these products is expected to increase.

Demonstrating the business case for their flood resilience programme to policy-makers, studies in Zurich have shown that “for every dollar spent on selected flood risk reduction measures, an average of five dollars is saved through avoided and reduced losses”.⁸²⁰ They used a community-based flood resilience measurement tool currently deployed by Zurich’s community partners in more than 110 communities.

This is *cutting-edge* applied research that will fill a gap, as no other measurement framework for disaster resilience is available, according to the United Nations Development Programme (UNDP).⁸²¹ Although climate change is one factor driving floods, *policy-makers’* responses to climate change risks can help manage these impacts. Studies like these also provide objective evidence that can influence policy-makers’ decisions in shaping responses to other climate-change-related risks.

Lastly, the circular economy is a valuable *means* through which the inclusive economy can adopt steady-state principles in its policy-making. Switching from copious consumption to maintenance will require adjustment, but the reality is: We will, going forward, have to face frequent choices between making things last and doing without.⁸²²

COVID-19 has ushered in a new dispensation, uncharted territory, in the economy, which asks for flexibility in setting progress priorities.

Other aspects that also need to be *strongly considered* in transitioning to a new economy are building to last; providing the right incentives (through policy) for the right choices; controlling shrinkage instead of letting it control us; decline need not mean fall (changing our perceptions); rediscovering our social roots; encouraging population stability; restoring nature.

The point we have reached in world economic history is to redefine what a *healthy economy* is. I would venture to say that it is an economy that constantly creates new job opportunities, not necessarily because of GDP growth, but because of productive inclusion through creating new capacity as a result of circular economic innovation and a collaborative proclivity among economic participants.

Sustainable shrinkage must combine with inclusive expansion; growth must be defined by its depth (quality), not its width (quantity); new ways of living and working together are therefore within our grasp. Vitally, policy-makers must be equipped with the right *policy instruments* to drive a virtuous circle of inclusive and quality growth, declining inequality, accelerated poverty reduction, as well as regenerative production and consumption processes that create the right eco-balance for progress.

Policies that entrench the building of a collaborative economy and government

The collaborative economy represents, on the one hand, a *new way* of thinking about business, exchange, value and community and, on the other hand, a renewed appreciation of *traditional* principles of economic collaboration and sharing. As Kathleen Stokes et al. highlight:

While its definitions are varied and parameters continue to evolve, activities and models within the collaborative economy enable access instead of ownership, encourage decentralised networks over centralised institutions, and unlock wealth (with and without money). They make use of idle assets and create new marketplaces. In doing so, many also challenge traditional ways of doing business, rules, and regulations.⁸²³

The step-up or acceleration came at the end of the twentieth century because of technological innovation, and more specifically, how the Internet made it drastically easier for people to connect with one

another and coordinate their economic activities. Yet, to be clear, when considering policy (and regulation) in the collaborative economy, it is first necessary to *differentiate* between two interpretations of the collaborative economy that may attract different policy and regulatory responses: The first *interpretation* reflects traditional notions of sharing; “This collaborative economy has been around for millennia and is deeply embedded in, for example, indigenous cultural practices ... and in the gift and favour economies.”⁸²⁴

In contemporary Western societies, this sharing has been practised through initiatives relating to communitarianism and cooperativism, working towards restoring small-scale personal exchange as a means of redirecting communities from the individualism and consumerism that characterise present-day capitalism.⁸²⁵ Translated into the digital world, Trebor Scholz argues for platform cooperativism (a movement made up of co-owned digital platforms where democracy, mutuality and communitarian ideals invigorate genuine sharing and solidarity).⁸²⁶ All this clearly reflects Ubuntu.

The *second interpretation* has also appropriated the terms ‘sharing economy’ and ‘collaborative economy’ and adopted portions of communitarian values. It is a disruptive, digitally-mediated version of the collaborative economy known as ‘platform capitalism’. Also called the “peer-to-peer” (P2P) or “gig economy”, it has incorporated the rhetoric of sustainability, trust and openness and is becoming a key change agent in many sectors of the economy.⁸²⁷ This version of the collaborative economy, which is underpinned by venture capital and includes profit motivations (producing quite a number of billionaires in a few short years), is only *in part* based on the above notions of sharing, gifting or mutuality.

For governments, the tremendous growth of this digitally-mediated collaborative economy has presented a range of policy and regulatory challenges. From a policy perspective, the second interpretation would be the main focus, while the values of the first interpretation of the collaborative economy would be part of what policy would want to prioritise, building it into the second to promote *inclusivity*.

Given the lightning-speed multiplication and fluidity of the digital collaborative economy where almost anything can be shared or accessed via mobile technologies, existing business models and traditional supply chains are coming under increasing pressure to *adapt* and transform.⁸²⁸ In turn, this places pressure on traditional

domestic taxation regimes, labour laws, health and safety regulations and many more policy and regulatory frameworks to keep up with the changes brought about by innovations in the market.

This change in the landscape presents itself with a number of policy dilemmas to address. Before pointing those out, a *greater challenge* for inclusive economy policy-makers is to ensure that the essence, or heartbeat, of the collaborative economy is preserved and integrated into shaping the new economy. Rachel Botsman describes it quite well:

It's about empowering people to make meaningful connections, connections that are enabling us to rediscover a humanness that we've lost somewhere along the way, by engaging in marketplaces like Airbnb, like Kickstarter, like Etsy, that are built in personal relationships versus empty transaction.⁸²⁹

As more organisations take part in the collaborative economy, it is crucial to find robust ways of understanding and comparing them. While using traits can assist in making general distinctions, it is useful to outline a more detailed conceptualisation of the collaborative economy. This is done in Table 6.4.

Table 6.4: The four pillars (and traits) of the collaborative economy as policy focus-areas

Key Traits			
Distributed networks	Internet technologies	Meaningful interactions and trust	Openness and inclusion
Collaborative consumption	Collaborative production	Collaborative learning	Collaborative finance
Redistribution markets	Collaborative design	Open courses and course-ware	Crowdfunding
Product service systems	Collaborative making	Skill-sharing	Social lending
Collaborative lifestyles	Collaborative distribution	Crowd-sourced knowledge	Complementary currencies
			Collaborative insurance

(Source: Stokes et al. 2014; Cruz et al. 2018)⁸³⁰

This gives an idea of the complex multi-value, multi-interest policy setting that governments are required to negotiate in responding to

the collaborative economy. In addition, their ideological commitment to neoliberalism and the framing of sectors within an industry policy approach has created path-dependent logics that constrain creative policy solutions.

First, as mentioned, a number of policy dilemmas related to the collaborative economy need to be identified to develop *new-level thinking* for policy solutions. The following provides a good picture of what such dilemmas typically entail:⁸³¹

- *Free riding on collective resources.* Sharing and exchange through collaborative platforms can foster free-riding of resources and services provided by public authorities (e.g., tourism marketing and promotion, recreation and leisure services).
- *Flexibility vs certainty.* As it evolves, it requires balancing flexibility and innovation against creating certainty for generating business confidence and investment attraction.
- *Rights vs freedoms.* State responses must balance what is good for society versus what is merely profit-driven and good for the individual or company's private interest.
- *Distribution of benefits* (winners and losers). Governments need to understand who wins and who loses and what can be done to minimise any negative effects on marginalised groups or actors.
- *Policy mobilities.* There is a propensity to adopt and adapt policy measures from one jurisdiction to another. Innovation, though, is often context-dependent. What is innovative and brings net positive benefits in one setting may not be the same in a different setting.
- *Responsibility.* In the collaborative economy, there is little consensus on who is responsible for the negative externalities emerging from it. MNCs, for instance, are often not limited to domestic laws, making it difficult to attribute specific responsibilities to them.
- *Power and governance.* Power shifts from the public to the private sector are exacerbated in the collaborative economy. Establishing good, inclusive governance arrangements and collaboration in such an economy present different/unique challenges.
- *Relationship between policy and innovation.* Policy responses (especially when involving setting regulations) may impede or promote innovation. Understanding the effects/impacts of potential regulatory approaches on innovation in the collaborative economy is required.

Giving perspective on the areas that policies should prioritise, Figure 6.7 ranks the different types of transactions being facilitated by participants (service providers, users and intermediaries) in the

collaborative economy, as per a survey done in Europe by Nesta in 2014.⁸³² Notably, these focus areas also reflect the main traits of the collaborative economy, with *education* ranking number one.

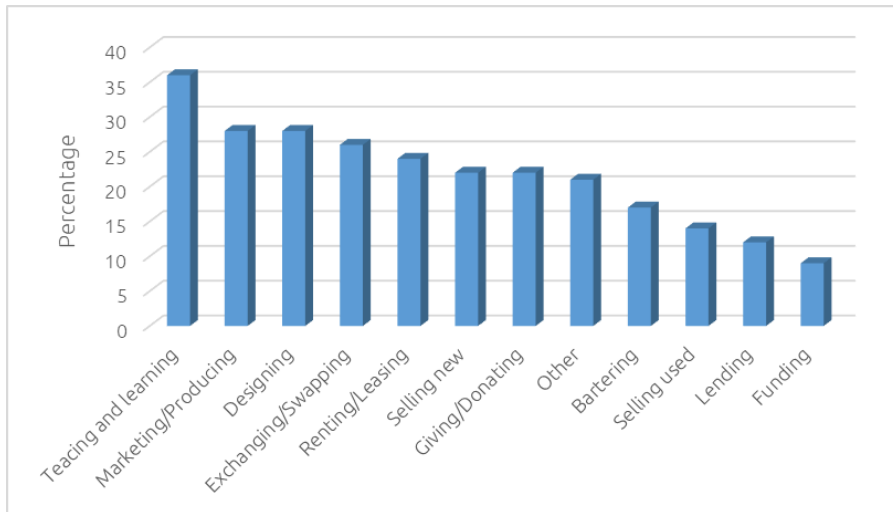


Figure 6.7: Types of transactions facilitated by collaborative economy participants in Europe (Source: Data from Stokes et al. 2014)⁸³³

A number of goals have also been identified in the Nesta survey that are pursued by participants, which indicates that they are ambitious about what they want to achieve within and for society. From *empowering individuals* to stimulating local economies, the goals of respondents are wide-ranging. Identifying these goals (as seen in Figure 6.8) is important for further clarifying areas that policy-makers must cover for *policies* to be relevant in guiding the collaborative economy.⁸³⁴ From these goals, a number of drivers can be broadly identified, which is important from a policy perspective so that policies complement them. Without being mutually exclusive, the *drivers* are

- creating value out of idle assets;
- rebuilding social capital;
- creating new economic relationships; and
- environmental sustainability.

Table 6.5 shows how policy can play a positive role in *guiding* the digital collaborative economy to adopt more of the approaches/characteristics of the classic collaborative economy. Important for *businesses*, Anya Kamenetz emphasises:

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We no longer live in a binary space of business versus the grassroots. Businesses can be part of social change, just like non-profits. This space between social benefit and economic benefit is where the sharing economy is growing fast.⁸³⁵

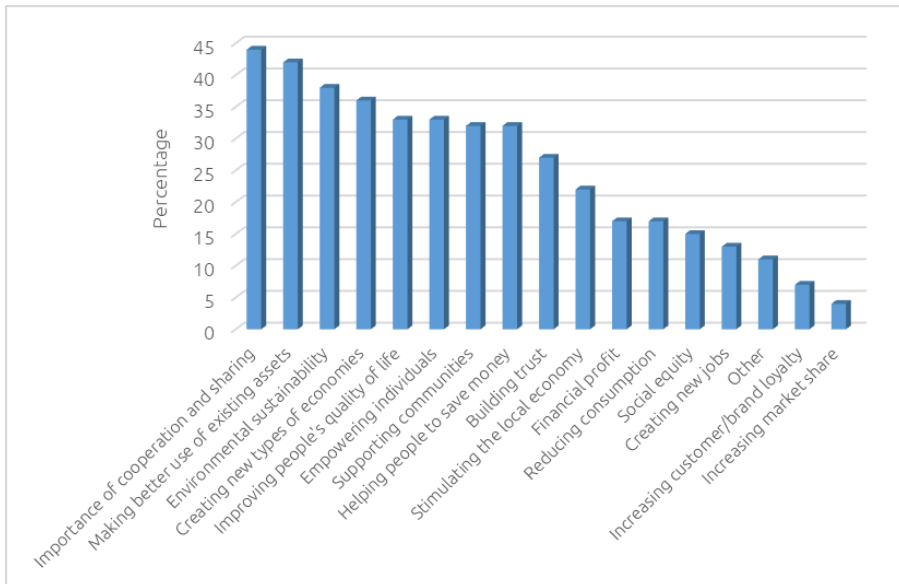


Figure 6.8: Goals of participants in the European collaborative economy (Source: Data from Stokes et al. 2014)⁸³⁶

Understanding the collaborative economy's percolating complexities, and considering potential reforms, requires a clear focus. Policy-makers must at least differentiate between the four pillars (Table 6.6) in the collaborative economy. Being the first pillar and arguably the one attracting the most attention, *collaborative consumption*¹² models can be taken as an example: they encounter specific issues; these tend to be related to an organisation's business model and the type of asset, both being helpful factors for identifying relevant existing policies and regulations for assessment.⁸³⁷

12 Collaborative consumption is complementary to the circular economy, being "a loop economy implying waste reduction, job creation, resource efficiency and dematerialisation of the industrial economy" (Toni et al., 2018:4469).

Table 6.5: Migration within the collaborative economy through policy guidance

Digital collaborative economy	>>	Classic collaborative economy
Platform capitalism	Collaborative economy model	Platform cooperativism
Privatisation of value extracted from sharing	What happens to the value produced?	Re-invest back to the commons or into the common wealth
Labour subsumed into the production of the good or service (and risk being undervalued)	Labour	Supports worker solidarity by combating wage theft, exploitation, and erosion of worker benefits.
Returns portioned between share-holders and asset owners, producers	Stakeholders	Returns go to workers, asset owners and producers
Unlocking innovation potential and ecologies of small/micro-entrepreneurship	Focus of policy	Social policy focused on regulatory frameworks that support cooperative platforms that promote fairness
Limited regulation of digital collaborative economy activities (a gradual increase of regulation)	Focus of regulation	Regulation supports collaborative economy workers, working conditions and rights
Mobility of policy ideas and approaches that facilitate the extension of global platforms	Global-local nexus	Ecosystems of local collaborative businesses that may link on a global scale through shared value systems

(Source: Dredge & Gyimóthy 2017)⁸³⁸

Policy assessment, being most critical, can take many forms. However, maintaining some degree of consistency will leave policy-makers better placed to revisit, build on and compare their efforts as new issues arise and the wider space evolves. In Table 6.6, a basic yet uniform set of core criteria have been proposed. These are intended to act as a *starting point* for a more thorough assessment and provide a common lens for discussions among different stakeholders of the collaborative

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economy, including policy-makers, companies, communities and individuals.⁸³⁹ Once policies have been assessed for efficiency, it becomes much easier to identify further appropriate responses.

Table 6.6: Framework for assessing policy issues related to collaborative consumption

Asset	- What asset is the activity/business focused on?
Business model	- What business model drives the activity (e.g., P2P/consumer-to-business/business-to-business (B2B))?
Public benefits	- What benefits (micro and macro) do the activities/companies in question bring? (Important: differentiate between social, environmental and economic benefits.)
Public risks	- What risks are related to the activities/companies in question? (Important: distinguish between real and perceived risks; also identify the differences between monetised and non-monetised platforms (and their possible effects/risks).)
Current policy	- Is there a policy in place that directly regulates the activities/companies in question? - When was the current policy drafted? (Evaluate relevance/applicability/usability.) - What risks was this policy intended to protect against? Whom was it designed to protect? Why? Differentiate between no policy in place, outdated policy, and archaic policy.
What is outdated?	- Are the original risks in question still present? - Is there a collaborative economy activity that is illegal or banned outright under the policy? - What else has changed since the policy's inception?
What is missing?	- Have new policy risks developed in recent years which are not covered by any policy or regulation?

(Source: Stokes et al. 2014)⁸⁴⁰

It is vital, in an age of *crowdsourcing* and *on-demand work*, that the collaborative economy incorporates what Antonio Aloisi calls “social responsibility by design”.⁸⁴¹ The promise of new employment opportunities may turn into a “social race to the bottom” if the *laissez-faire* approach should last above and beyond.⁸⁴² The predominant trend does reveal that collaborative business models may be used

to overcome/substitute a stable organisation of the workforce with economically or at least organisationally-dependent workers.

However, given that the fluidity of the situation adds strain to the employer-employee relationship, a mere *wait-and-see* approach to how the collaborative economy unfolds is costly and risky since each nation (or even municipality, province or local authority) is addressing the issues arising from this economic segment by using different, sometimes contradictory, policies. A common frame of reference is much more desirable than a patchwork of policy strategies. In this sense, the best current attitude is perceived as a *fair balance* between supporting entrepreneurs' confidence and implementing workers' protections.

A *one-size-fits-all* type of policy intervention is also unlikely to achieve policy goals effectively. Given the unprecedented scale and scope of the *collaborative transformation*, a reckless or "hastened regulation or deregulation on a weak evidence base is likely to result in unintended consequences rather than achieve the desired objective(s)".⁸⁴³

Negotiating a more equilibrated *social compact* related to social platforms is urgent. Workers "piecing together a livelihood from a range of different tasks" could pose a threat to the social fabric.⁸⁴⁴ The enabling role of platforms in creating new and decent job opportunities can thus not be hindered. That is why institutions have to enable a competitive and *inclusive* playing field where platforms comply with obligations related to employment rights but also ensure that the most convenient imbalance between the promotion of innovation and decency of work is established.

On top of this, as Aloisi emphasises, "having extensive opportunities to design and shape the concrete functioning of their platform, operators must be sensitive to the needs and demands of workers and users by implementing new features and renovating their embryonic business model."⁸⁴⁵ Shared values are therefore essential.

The last aspect to consider in this section, given its current embryonic phase, is the importance of anticipating various *directions* in which the collaborative economy can develop to ensure *proactive* policy-making. Extrapolated from current trends: three main future scenarios can be identified:⁸⁴⁶

- *Scenario 1: Centrally orchestrated collaborative economy.* Anticipate increased market concentration in the direction of strong service providers. Examples of this are already evident today, such as Uber, Airbnb, Amazon and WeChat. Even though, in reality, governments

are expected to regulate markets from being monopolised by a single firm, some form of extreme market *consolidation* might occur. Platform providers that are increasing demand create positive direct and indirect network effects. Network effects incentivise actors even more to *herd* with others (e.g., taxi firms joining the Uber network), which, in turn, can lead to one single platform (or natural monopoly) dominating a market.

- *Scenario 2: Social bubbles collaborative economy.* This scenario is based on the prediction that these existing organisations will further morph into service providers covering more and more of the market. But in contrast to the first scenario, this one suggests consolidation in social bubbles. Entrepreneurs would enter this centralised market and establish themselves as new niche players seeking rents from market innovation. Following the logic of resource partitioning, leading service providers leave room for specialists to innovate the market by targeting particular market segments. Such new players are expected to occupy niches in which *superiority of fit* with the environment supersedes an established service provider's ability to adapt to a broader range of environmental conditions. This allows for *pockets* to emerge within this market. In this way, niche (bubble) specialists will occupy the market space not covered by the large platform providers, thereby avoiding direct competition.
- *Scenario 3: Decentralised autonomous collaborative economy.* This scenario takes the potential for P2P connectivity to the extreme, leading to not only the *blurring of boundaries* between customers and micro-entrepreneurs but a complete openness and transparency among all participants in the market. This could mean that technology takes over agency and the ability to connect customers and service providers in open, deregulated markets. Users, intermediaries and service providers agree on *smart contracts* embedded in the algorithm of the blockchain, which sets the rules for service exchange. The blockchain will set the stage for self-organised (autonomous) coordination on a macro scale and global P2P interaction by providing a reliable, open, programmable infrastructure. The technology can be compared with a *centreless living organism* operated by a wide crowd of engaged participants. Since AI can connect individuals on a large scale, with (almost) no intermediary involved, no single point of power (e.g., platforms such as Facebook) entirely governs and controls the network. The blockchain executes collective agency and allows individuals to interact with one another. Individuals would be connected through

the social *cyber-physical* system and can own shares in the system. These shares could be distributed in proportion to the participant's engagement perceived by other peers.

Inclusive institutions

Institutions, notably public institutions, provide the broad framework within which politics, society and the economy function.⁸⁴⁷ They have significant impacts on the well-being of a country's citizens and largely determine the extent of *active inclusion* of marginalised groups/people. Shared or mutually respected values (such as respect and trust) can also impact positively on both social and economic relations. Institutions and values interact; for instance, voluntary compliance with the law supports the institutions that define and enforce the law, while accountable institutions create an inclusive system of governance and, preferably, economic opportunity.

One major *concern* in the wake of the recent global pandemic is how it exposed, in many cases, defective societal institutions. State programs in a number of countries were found to be rewarding the affluent instead of the poor and were, in some cases, even involved in politically corrupt behaviour.⁸⁴⁸ The market/state order seems so committed to promoting GDP growth, using *centralised hierarchies* (through institutions) to control life, that the resulting systems have become fragile, clumsy and non-resilient. It is increasingly evident that current problems are profoundly systemic, and weak institutions are part of the corollary.

As we enter a *new normal*, it is thus the ideal time to redesign our economy and governance institutions. We cannot allow ourselves to revert back to old ideological patterns of thought as if the pandemic were simply a temporary break from the normal. *Institutional innovation* is at the heart of shaping a better-functioning society.

This is not just about (external) systemic change but also about confronting inner realities that need to change. As David Bollier highlights, "We need to understand our interdependencies so that we can build appropriate institutions to rebuild and honour our relationships with each other. Our inner lives and external institutions need to be in better alignment."⁸⁴⁹

Providentially, there are many *new possibilities* for institutional change, e.g., in relocalisation, agriculture and food, cities, digital networks, social life, and many other areas. One requirement is that we move beyond the tired debates about socialism versus capitalism.

Both of these options, ironically, rely on centralised, hierarchical, state-based systems, after all.⁸⁵⁰

Greater focus should be on creating *commons* in communities (all kinds) to open up new vistas for distributed, peer-organised initiatives. It is another way to honour the countless internet-friendly options that empower us to take charge of our own governance and provisioning as is realistically possible. With regards to *institutional innovation*, the opportunity before us, after a changing of the landscape due to COVID-19, involves primarily (at least):

- *Relocalisation is vital to a resilient economy.* Main vehicles for relocalisation include community-supported agriculture, community land trusts, local import-replacement of goods, and local currencies. The basic goal is to *decommodify* assets and recirculate value. Another important subset of the relocalisation question is regionally-based agriculture and food distribution systems. The opportunity exists to now develop food supply chains that are more place-based, inexpensive in their holistic operations, respectful of ecosystems, and resilient when disruptions do take place. Using data analytics also allows farmers to build new kinds of cooperative supply systems, which will benefit communities;
- *Exit-to-community strategies.* These are ways for entrepreneurs to allow communities to acquire their enterprises, thus avoiding selling out to large companies or selling to private investors. In the UK, for instance, there is a wonderful Assets of Community Value Law, which gives local communities a legal entitlement to be the first to bid on private businesses that are being sold or in danger of liquidation. This has been a way to *convert* privately owned buildings and civic spaces into community assets (common wealth);
- *Establishing cosmo-local production.* This is a system in which global design communities freely share and expand *light* knowledge and open-source style while encouraging people to build concrete things locally, such as physical manufacturing. Examples of such products include motor vehicles, houses, furniture, agricultural equipment and electronics. Another example, Public Lab, is a citizen-science project that provides *open-source* hardware and software tools. The point here is developing more resilient local production that can be customised to meet local needs. Innovation need not be constrained to large institutions only.
- *Platform cooperatives.* This is another institutional model of communing. Internet platforms are used as vehicles for a cooperative benefit to empower workers and consumers, stimulate creativity, reduce prices, and improve quality of life. What is

different about the platform coop is that it *empowers* the people who own and run them: workers, consumers and municipalities, rather than investors who extract money from a community like Uber and Airbnb. Platform coops *mutualise* market surpluses for the benefit of participant-owners.

- “One variant of platform coops is known as DisCO (the Distributed Cooperative Organisation), which is a digital platform, sometimes using distributed ledger/blockchain technologies, to build working communities that prioritise mutual support, cooperativism, and care work, while avoiding the exclusionary, techno-determinism of typical networked platforms. DisCOs and other network platforms need not be market-driven. They can be mutual aid platforms of the sort we’ve seen in response to the pandemic ... or timebanking platforms that enable people to share services through a credit-barter system or freecycle platforms for giving away and sharing things.”⁸⁵¹
- *New types of commons-based finance.* There are already many useful examples to build upon, such as mutual aid societies and insurance, crowd-gifting and crowd-equity pools of money, community land trusts, community-supported finance models, platform cooperatives, and different types of *Convert-to-commons* strategies. The aim is to avoid traps related to conventional debt and equity. It is viewing finance as a diverse array of community-supported and -accountable pools of money that actively facilitate communing.

These institutional innovations, although not exhaustive, fit well into the *inclusive economic* framework. In this regard, institutions are most definitely needed to sustain inclusive growth, genuine economic progress and enhance overall well-being. Structural impediments to economic inclusivity and systemic change need to be addressed by inclusive institutions. Institutions are not just organisations but also *rules* that describe how social actors act.⁸⁵² Property rights that regulate who can do what with an asset are institutions, and so are taxation rules, subsidisation or conditional financing:

The economic effect of an institution depends not only on what the rules specify but also on the degree to which they are followed or enforced. Institutions are formal if they are enforced by the state, and informal if they are self-enforced or enforced partly or entirely by non-state actors or agencies.⁸⁵³

Organisations are, therefore, the *agencies* that operate under these institutional rules. Enforcing formal institutions like property rights, human rights, and the rule of law is, therefore, a critical requirement of market-enhancing governance. This is why focusing on market-enhancing strategies like *good governance* (in all spheres) is so important.

One basic requirement of good governance is *empowered participation*. Principle 4 of John Fullerton's *Regenerative Capitalism* states:

All healthy living systems are self-organising and operate through continual negotiation with one another and in constant *conversation*. So too, a healthy human economy requires the empowered participation of individuals and groups, negotiating in their own enlightened self-interest as they naturally promote the health of the whole.⁸⁵⁴

This is why, together with an inclusive economy, people are empowered by *inclusive governance*, otherwise known as 'participative government'. South Africa is one example where, after the democratic change in 1994, it has only been governed by one ruling party. With corruption levels becoming truly endemic, its Constitutional Court made a landmark ruling on 11 June 2020 to allow independent candidates to stand for public office, in line with the Constitution.

This means that citizens are no longer at the mercy of party politics but can elect their own leaders and hold them *directly* accountable.⁸⁵⁵ This takes power right back to the people and enables inclusive discipline. Without even such radical systemic change, all levels of government can play a creative role in empowering people, so long as they can get used to the idea of use rights being as important as market exchange.

One way of pursuing this goal is through *commons/public partnerships* or a social compact.⁸⁵⁶ This is a very significant way (and much larger topic) in which the state, long allied with capital investors interested in economic growth, can become a constructive, non-intrusive partner with citizens and businesses in developing different types of infrastructures, legal regimes and financing for commons/common wealth. For instance, a connection between public policy and challenges of poverty at local levels needs not just new partnerships for the common cause or new techniques of representing and mapping poverty; it requires that the whole enterprise be comprehensively

reframed in a fully collaborative context (including formal agreements for accountability), which must be sustained over time.⁸⁵⁷

A further way to signal the commitment is *mutual ownership*. Having at least a degree of mutual ownership¹³ (that is, even if the stakeholder ownership stake is less than 100%) will give confidence that the policy of recognising mutual interests will not be reversed at any moment but rather is embedded in ownership (e.g., even smart redistribution), with rights of governance and decision-making.⁸⁵⁸ This encapsulates Ubuntu.

Policy and institutions matter for *distribution* and fostering a direct link between poverty and inequality, and indirectly through growth. Deepening such policies and institutions should be prioritised. In view of progressively pluralistic inclusions, organised places, communities, and local governments are becoming important territories for social governance, where a premium is placed on moral commitment and ownership.⁸⁵⁹

New Zealand is an example of where the community and voluntary sectors, which have long been *partnered* via a fairly strict *contractualism*, ‘relationship’ is being recast in more participatory and inclusive terms. Showing their new emphasis on well-being and economic inclusivity, the Ministry of Social Development recently stated:

Government is working with communities to ensure services respond to local needs. We are identifying the key players, and supporting them in finding local solutions to local issues ... These include the community and voluntary sector, businesses, local government and the communities themselves Our approach is designed to foster a community ownership of solutions.⁸⁶⁰

In line with the principles of *good governance*, local governments ought to be evenly involved in the entire local economic strategy, from place marketing to public-private infrastructure provision and commercial partnerships. As a shared goal to strive towards and guide institutional reform, Ukraine’s framework for *inclusive development* (see Figure 6.9) can be productively employed. Characterising the main determinants of an inclusive economy: It can be used as an index based on 12 macro-indicators joined into three distinctive groups: growth and development, inclusion, and intergenerational equity and sustainability. Again, their interrelationships are what matter.

13 Mutual ownership (where there is true accountability), good stewardship and good governance are all consonant.

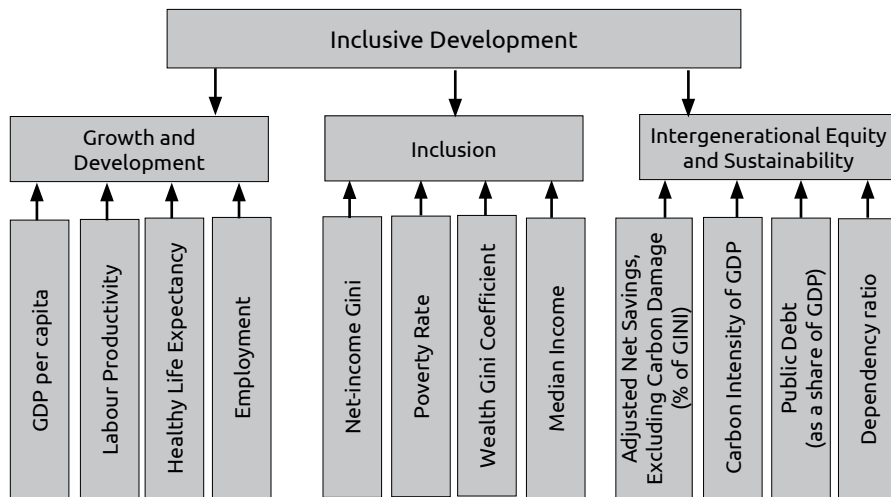


Figure 6.9: Inclusive development macro-indicators to guide institutional reform and aims (Source: Hutorov et al. 2020)⁸⁶¹

Finally, it is important that a clear distinction be drawn between two types of political institutions: *extractive* and *inclusive*. Extractive institutions counteract Schumpeterian¹⁴ creative destruction, whereas inclusive institutions support it.⁸⁶² Accordingly, poverty is associated with extractive political institutions, while *integral* human development is associated with inclusive political institutions. A select few at the top (or *élite*), in many cases, lead extractive political institutions by extracting resources and incomes from one subset of society in order to benefit a different subset. In such settings, only they control the power-creating monopolies, often exploiting the population and reducing incentives for the majority.⁸⁶³ The *élite* tend to *resist* economic progress and inclusive processes of prosperity; that is, they oppose creative destruction because they fear losing control. Those who live under extractive institutions and are not part of the *élite* are destined for a subdued quality of life.

In contrast, inclusive political institutions allow competition in society. They secure property rights and opportunities for all: the broad cross-section of society. Inclusive political institutions allow, *encourage* and facilitate people's attempts to produce their own life

14 Being innovations to increase productivity, Schumpeter saw it as the "process of industrial mutation that incessantly revolutionises the economic structure from within, incessantly destroying the old one, incessantly creating a new one".

projects.⁸⁶⁴ Inclusive political institutions promote best practices for governance to stimulate creativity in seeking new solutions and to encourage individual and/or group initiatives so as to prevent people from being alienated from the economy and instead enable them to become integrated and active contributors. As part of creating a productive *enabling environment*, inclusive political institutions promote cultural sensitisation so that social and economic inclusion happens organically.

Policy process and implementation

Policy and regulation are important tasks undertaken by the government because, as Dianne Dredge and Szilvia Gyimóthy explain:

They create the conditions for societies to function in an orderly manner; they protect rights, attribute legal responsibility and, importantly, they directly and indirectly shape the social limits, expectations and desires that influence how individuals operate in society. The development of appropriate policy and regulation rests on two fundamental precepts – that government decisions should be based on good sound knowledge and that this knowledge should *rise above politics*.⁸⁶⁵

Critical policy analysts call for increased attention to the way in which knowledge is framed, policy discourses are socially engineered, and how the values are underpinning decision-making influence outcomes that benefit certain groups and individuals.⁸⁶⁶ Often at the policy implementation phase or the lack thereof, the true *agenda* of a policy is revealed; either it ends up being inclusive (aimed at benefitting all) by nature, or it is exclusive (aimed at benefitting only some) by nature and intent. Similar to what was explained in an institutional context (extractive vs inclusive), policies can fall victim to equal/parallel forces. This is contrary to Ubuntu. For economic policies to be consistently effective, which is vital for building a sustainable economy, they must therefore be kept *clean* of political agendas and interests.

As far as the *policy process* is concerned, Figure 6.10 gives an outline of the five steps involved. Though it is quite self-explanatory, the following can be highlighted for each stage:⁸⁶⁷

- *Agenda setting*. Strategic thinking is necessary to fully identify the need, method and goal(s) to be achieved, which require government intervention.

- *Policy formulation.* The investigation of policy options, evaluating their costs, benefits and feasibility, as well as the selection of relevant policy instruments and levers.
- *Implementation.* The execution phase of programmes and policy interventions requires all relevant government agencies and public service delivery bodies to collaborate, using the resources made available in accordance with prioritisation and policy formulation.
- *Monitoring.* This means evaluating policy impacts, both during and after implementation, taking stock of the inputs used, the outputs generated, and the outcomes observed.⁸⁶⁸ (Apart from the government agencies/departments involved in this phase, external stakeholders should form part of the process.)
- *Evaluation.* Assessing the results of the policy intervention in view of their goals by the government and external, independent specialists.

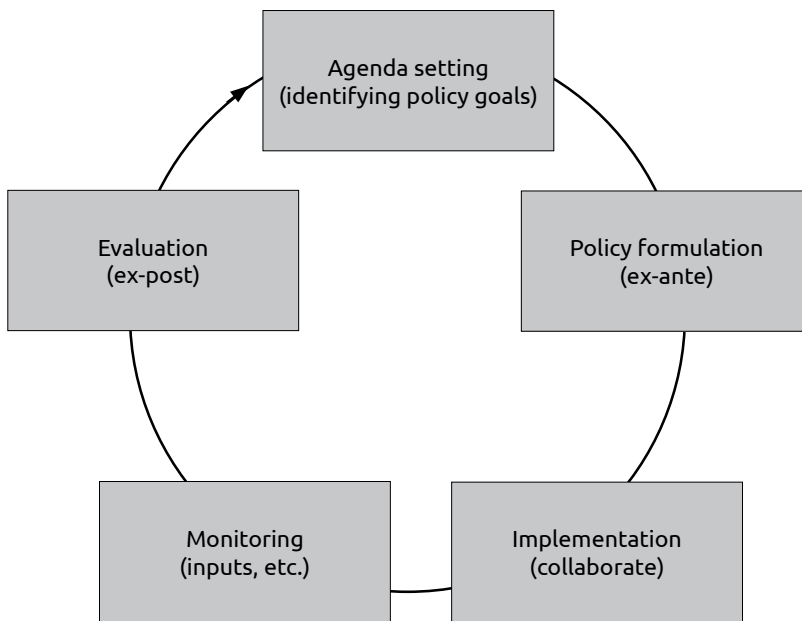


Figure 6.10: The policy process cycle (Source: Exton & Shinwell 2018)⁸⁶⁹

On a more technical level, the process of *policy iteration* consists of two simultaneous, interacting procedures: one making the value function consistent with the current policy (policy evaluation); and the other; making the policy greedy (in a good way, i.e., wanting or desiring) with respect to the current value function (policy improvement). In policy

iteration, these two processes alternate, each completing before the other begins, but this is not always a requirement.

In *value iteration*, for example, an iteration of policy evaluation is performed only once in between each policy improvement. In asynchronous dynamic programming methods, “the evaluation and improvement processes are interleaved at an even finer grain”.⁸⁷⁰ In some cases, a single state is updated in one process before returning to the other. As long as both processes continue to update all states, the ultimate result is typically the same, i.e., *convergence* to the optimal value function and an optimal policy.

In this way, policy evaluation and policy improvement processes can interact, independent of the granularity and other influences. The process of generalised policy iteration involves at least *identifiable policies* (i.e., a clear policy area and goals) and *value functions*, with the policy always being improved with respect to the value function and the value function always being driven toward the value function for the policy. This overall schema is illustrated in Figure 6.11.

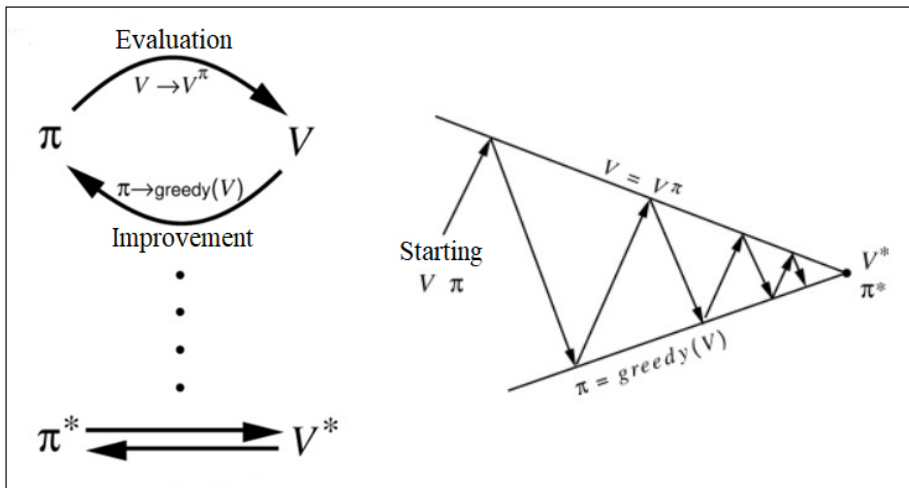


Figure 6.11: Policy functions interacting until optimality and consistency are reached (Source: Sutton & Barto 2005)⁸⁷¹

When both the evaluation process (π to v) and the policy improvement process (v to π) stabilise (i.e., they no longer produce changes), then the value function and the policy are considered to be *optimal*. The value function only stabilises when it is consistent with the current policy, and the policy only stabilises when it is *greedy* with respect to the current value function. Both processes therefore stabilise (have

optimal results) only when a policy is found to be fully aligned (greedy) with what it intends to achieve (evaluation function worked to improve it). Each process drives the value function or policy toward one of the lines representing a solution to one of two goals:

The goals interact because the two lines are not orthogonal. Driving directly toward one goal causes some movement away from the other goal. Inevitably, however, the joint process is brought closer to the overall goal of optimality. The arrows in this diagram correspond to the behaviour of policy iteration in that each takes the system all the way to achieving one of the two goals completely.⁸⁷²

According to Michael Kraft, for a *policy window* to open; for policy intervention to be opportune, three streams must converge:

- *The problem stream*, where attention shifts towards evidence of a problem (that which the policy needs to address).
- *The politics stream*, where policy-makers have the motivation and willingness to act to solve the problem (i.e., political will).
- *The policy stream*, where an acceptable solution to the problem is available for policy-makers (commitment towards implementation).⁸⁷³

Therefore, if both the problem and political conditions arise, inclusive policy indicators could fulfil the *policy stream condition* and complete the policy window. In this regard, a reminder of what Milton Friedman said is quite appropriate:

[When a] crisis occurs, the actions that are taken depend on the ideas that are lying around. That, I believe, is our basic function: to develop alternatives to existing policies, to keep them alive and available until the politically impossible becomes the politically inevitable.⁸⁷⁴

Restoring *trust* in institutions and government policy-making is vital for strengthening democracies and economic sustainability. *Inclusion*, again, is the deciding factor in whether that trust is restored. The window of opportunity has never been greater as we venture to recover from the turmoil caused by the global COVID-19-pandemic to align policy and institutional reform with the principles of economic inclusivity.

Conclusion: Policy framework and final recommendations

From all the analyses and explanations in the previous sections, the following inclusive economic policy framework can be constructed to provide *context* to inclusive economic thinking in terms of *finding* sustainable solutions. Table 6.7 outlines this framework in concise terms, identifying arguably the top five issues inclusive economics aims to remedy. Note that this is a mere snapshot of the practical applicability of economic inclusivity from a policy perspective.

In view of the IEM explained earlier, the policy framework presented in Table 6.7 can serve as a soundboard/checklist when IEM is used as an analytical tool to examine the impact of policy and change in an economy. When considering the multiple *interrelationships* among the content in the framework, it supports the IEM's emphasis on the need for economic policies to be highly integrative/complementary. To enhance economic inclusivity, this is essential as it shapes a *new economic agenda* that must be coherent as well as meaningful to policy decision-making. Taking cognizance of the multi-dimensionality of well-being helps to clarify that inclusivity is only the means to an end that is captured in *overall well-being*.

Policy initiatives, reforms and objectives were proposed in this chapter in the areas of inclusive growth, genuine economic progress, the circular economy and the collaborative economy. One area though of major interest for policy-makers trying to identify a starting point for inclusive economic change is policies that can bring about *inclusive growth*. In this regard, Odusola stresses that:

Strengthening the growth-poverty-inequality nexus poses a challenge for policy-makers to have a policy mix that combines growth-promoting policies with policies that allow the poor to contribute to that growth process, leverage opportunities unleashed by the growth, and for those who are sidelined in the growth process to share the benefits of such growth.⁸⁷⁵

This type of growth, guided by inclusive policies, should address improvements in incomes in both absolute and relative terms, as well as enhance the *productive capacity* of the poor. This is an example of the integrative nature of inclusive policy-making, which appreciates a pluralistic approach. Such an approach requires a pro-active and engaged mindset for finding inclusive economic solutions.

“Do not look the other way; do not hesitate. Recognise that the world is hungry for action, not words. Act with courage and vision.”⁸⁷⁶

Table 6.7: Inclusive economic policy framework: Creating synergies for better solutions

<i>The five main concerns inclusive economics wants to find answers for</i>	Inclusive growth	Genuine economic progress	Circular economy	Collaborative economy
1 Poverty	Pro-poor growth; rise of prosumers	Equal opportunities; equitable outcomes	Circular principles for welfare maximisation	Resource-based economy; access
2. Inequality	Broad-based growth; shared growth	Better resource allocation and income distribution	Distributive economy model; learning from nature's system	Decentralise economic power; distributive gains
3. Unemployment	Employment creation; upward labour mobility	Holistic economic progress and human development; new types of job creation	Regenerative eco- innovations that enable innovative job creation; co-creation	Creating new opportunities for resource use and economy activities
4. Systemic failures	Growth that creates real value	GPI over GDP; true progress measures	Steady-state economy; moral responsibility	Inclusive business Access economy
5. Economic crises	Ending perverse growth; net GDP growth rate	Overall well-being over GDP growth; economic repurposing	Social equity and ecological parity; from linear to circular	Local economy collaboration; inclusive governance

(Source: Own work.)

When Nelson Mandela said these words, South Africa was on the verge of becoming one of the greatest inspirations in the world, not just politically but also economically. The world has indeed *learnt* from South Africa, but in two opposing ways: political inclusion (democracy) can materialise in an Apartheid state without a civil war (1994 to the 2000s), and political will to put economic inclusion *into action* can be derailed disastrously by political agendas that interfere with policy-making and -implementation (2009–2022). Not just South Africa and Africa, but the whole world needs to heed Mandela's call once again: now only with better means and frameworks at our disposal to establish inclusive economies.

The role of the state in creating a truly enabling environment, for especially the marginalised, to *benefit all* is vital to inclusivity. That is why each policy in both developed and developing countries must be informed by the principles of Ubuntu. The inclusive approach fostered by Ubuntu is arguably the only basis for facilitating sustainable progress through policy. Efforts by civil society as well as inclusive enterprises must be reinforced and systemically entrenched by government initiatives.

Policies actively geared towards generating employment opportunities, poverty reduction, better income redistribution, social justice and environmental responsibility are *paramount*.⁸⁷⁷ An effective progressive tax system, affordable housing, pro-poor social protection, social security in health and education, and fiscal and monetary policies that favour inclusive, long-term growth should be vigorously implemented.

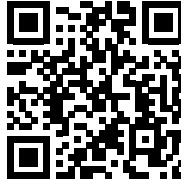
To sustain this, inclusive institutions have an important contribution to make: cultivating and honouring *civic-public-private* (CPP) partnerships to strengthen social cohesion and productivity. Such partnerships between society, government and business could be in the form of social agreements. The *key aspects*, though, are that it becomes a basis for accountability and collective progress in communities and in the economy. An effective policy requires such *inclusive accountability*.

As Elizabeth Kronoff points out, “there is no incentive to change policy if there are no personal consequences for poor policy performance.”⁸⁷⁸ In other words, mere evaluation is not enough: we need the political and/or business *will* to move and address failure and success. Although lack of accountability may be a large part of the problem, measurement is a component of it by definition. Hence, “new forms of measurement are, in essence, accountability mechanisms.

The Inclusive Economy: Criteria, Principles and Ubuntu

Part of their function is to give politicians (and the public) the tools and the confidence to challenge the professionals.”⁸⁷⁹ In this way, *empowered participation* can take full effect, which leads to healthy economies, enhancing the health and well-being of the whole of society.

Scan the QR code to access a video on this chapter by the author.



Appendix 6.1: The Sustainable Development Goals (SDGs) and inclusive economies

SDGs	Circular Economy	Collaborative Economy
1. No poverty	Poverty is understood as a symptom of a distorted (linear) production system. Simplicity for efficiency and better resource allocation	Poverty is mainly understood (and measured) as a form of consumption deprivation. Inclusive market solutions. Network economy
2. Zero hunger	Regenerative waste management. Circular food production methods	Market orientation. Platforms to increase market efficiency
3. Good health and well-being	Balance: environmental protection (and healthy food), community cohesion and economic efficiency	Information provision and networking. Monetisation of health as an industry. Care economy
4. Quality education	Smart circular economy principles for integrative mindset; education as a lifestyle. New circular ideas	Education as an industry. Use of platforms to enable an international network of education providers.
5. Gender equality	Gender and productive inclusivity	Gender salient. Equal opportunity
6. Clean water and sanitation	Circular systems, principles and methods for clean water and sanitation.	Market measures. Information sharing for sustainable collaboration
7. Affordable and clean energy	Sustainable energy production. Strong focus on renewable energy; reducing costs through innovation	Market measures. Access to new innovations. Platforms of collaboration (commercial and localised)
8. Decent work and economic growth	High labour market inclusivity and regenerative productivity and entrepreneurship. Inclusive growth methods ensure genuine progress	Work is instrumental in securing consumption. Inclusive growth to increase individual income and human well-being

SDGs	Circular Economy	Collaborative Economy
9. Industry, innovation and infrastructure	Cradle-to-cradle methods for industrial infrastructure development. Biomimicry principles & <i>cleantech</i>	Importation and distribution of ICT capabilities. Innovation through networked collaboration.
10. Reduced inequalities	Regenerative and distributive productive opportunities. Fairness, social justice and efficiency.	Using the market to reduce inequalities and access for the poor. Collaborative capacity-building.
11. Sustainable cities and communities	Sustainable and innovative designs of cities (living spaces and working spaces). Communities of care. Adaptive approach to progress.	Monetised sharing platforms; more efficient private transport and commercial sharing. Localised cooperativism and the gift economy
12. Responsible consumption and production	Distributed manufacturing. Recycling, upcycling, waste into energy	Market forces; monetised exchange. Networks for meeting needs
13. Climate action	Respect limits (ecological ceiling)	Focus on efficiency and networks.
14. Life below water	Clean up oceans and rivers. Combat pollution through policy & practice	Use market and information to reduce tourism externalities
15. Life on land	Preserving biodiversity. Move from linear to circular production.	Use market and information to reduce tourism externalities
16. Peace, justice and strong institutions	Productive in a socially just space. Develop institutional capacity.	Public-private partnerships and privatisation. Inclusive institutions.
17. Partnerships for the goals	Entrenching a sustainability culture through partnerships and policy	Industry partnerships. Communitarian networking and collaboration

(Sources: United Nations 2015; Gössling & Hall 2019; Schroeder et al. 2018)⁸⁰

Appendix 6.2: Country examples of integrating well-being metrics into policy-making

Country	Mechanism/ instrument of implementation	Leading entity responsible for policy	Short description	Stage(s) of the policy cycle targeted
Australia	Well-being framework	Treasury	The treasury developed a well-being framework in 2004 to underpin analysis and advice across its policy responsibilities. The framework has five elements of <i>well-being</i> : (1) the level of consumption possibilities; (2) their distribution; (3) the degree of risk borne by individuals in society; (4) the degree of complexity we face in our decisions; and (5) the level of freedom and opportunity we enjoy.	Policy formulation; policy evaluation
Ecuador	Constitution; National Development Plan (NDP); Buen Vivir Secretariat	Buen Vivir Secretariat under the Presidency	The concept of <i>Buen Vivir</i> (good living) was integrated into the Ecuadorian constitution in 2008, and in 2013 then-President, Rafael Correa created the <i>Buen Vivir Secretariat</i> , which became a new ministry in the national government. A key mechanism is the NDP, which lays out – every four years – the national strategy for <i>Buen Vivir</i> .	Agenda- setting; policy formulation; policy evaluation
France	Budget law; new indicators of wealth	France Strategy and the Economic, Social and Environmental Council (EESC)	Requiring the government to submit an annual report to parliament on the progress of ten new leading indicators that reflect the country's economic, social and environmental situation was passed into law (411) by the French President in April 2015. The report aims to include an impact assessment of the main reforms envisaged in view of these indicators.	Agenda- setting; policy formulation; policy evaluation

Country	Mechanism/ instrument of implementation	Leading entity responsible for policy	Short description	Stage(s) of the policy cycle targeted
Italy	Budget law; measures of equitable and sustainable well- being	Ministry of Economics and Finance	In 2016 a law approved that a narrow subset (12) of the ISTAT <i>Measures of equitable and sustainable well-being</i> should be annually reported to parliament when the fiscal budget is discussed.	Agenda- setting; policy formulation; policy evaluation
Netherlands	“Accountability Day”	Netherlands Cabinet	The Dutch Cabinet commissioned, in February 2017, Statistics Netherlands to compile an annual Monitor of Well-being, forming the basis of Cabinet considerations on the state of the nation’s well-being, and be part of the accountability debate in the House of Representatives (third Wednesday in May, annually)	Agenda- setting
New Zealand	Living standards framework	Treasury	In 2011, the Treasury Living Standards Framework was developed as part of an internal process intended to enhance policy advice, providing evidence-based advice to Ministers on the lives of New Zealanders. It is regarded as an input into the policy process rather than a decision-making tool in itself.	Policy formulation
Scotland	Scotland performs	Government	First published as part of the 2007 Spending Review, the Scottish government’s National Performance Framework (updated in 2018) sets out a vision for Scotland, using an outcomes-based approach to measuring the government’s achievements rather than inputs and outputs. This Framework forms the basis of agreements with public service delivery bodies and is used to monitor their effectiveness.	Agenda- setting; monitoring; policy evaluation

Country	Mechanism/ instrument of implementation	Leading entity responsible for policy	Short description	Stage(s) of the policy cycle targeted
Sweden	New measures for prosperity	Ministry of Finance	As a complement to GDP, the New Measures of Well-being developed by the Swedish government have been integrated into the Budget Bill since 2017.	Agenda - setting; policy evaluation
United Kingdom	The What Works Centre for Wellbeing (WWCW); various central government activities	The WWCW (an independent agency); central government departments; Cabinet Office	Different approaches have been used to introduce well-being metrics into policy in the UK. One is the What Works Centre for Wellbeing (WWCW). It is an independent collaborative centre aiming to develop and stimulate the generation of high-quality evidence on well-being intended for decision-makers in government, communities and the business sector.	Policy formulation; policy evaluation
United Arab Emirates	The Happiness Policy Manual	Ministry of State for Happiness and Well-being	A Happiness Policy Manual was published in 2017 by the National Program for Happiness and Positivity, proposing the use of well-being measures to inform policy and public decision-making.	Whole policy cycle

(Source: Exton & Shinwell 2018)⁸⁸¹

Chapter 7

Navigating the Great Transition

“We cannot solve our problems with the same thinking we used when we created them.”

Introduction

The wisdom shared above by Albert Einstein confirms how important *new thinking* and a new level of thinking and insight are for finding genuine solutions.⁸⁸² In view of the terrible loss and ruin brought about by the COVID-19 pandemic globally, the moment has never been greater than now to find lasting economic solutions as we *rethink* our economic system. Harsh as it is, perhaps the greatest benefit that is coming out of this crisis is the opportunity to pause and start thinking out of the box, transcending the lockdown restrictions, so to say, to search for new business and economic solutions. The challenge now is to integrate them into a transformed economic system, which has to be truly sustainable. The *inclusive economy* holds the key to bringing it together.

Perhaps what is most unique about the inclusive economy is not that it is a finished product/model for economic change but that it breaks *new ground* in the right direction for new and alternative economic systems to be developed and integrated as part of a holistic process of advancement and economic discovery. It is an organic, ongoing process that is open-ended on the one hand but also has a set pattern or DNA, on the other hand, which is fixed.

The word *inclusivity*, as explained in this book, provides guidelines for the core characteristics and facets of what an inclusive economy involves. Now it is up to researchers and practitioners to add further sophistication and hands-on applicability as we all share a concern for the economy's future and a desire to improve it.

Paul Krugman stated in 2011 in his memorable (and sobering) presidential address to the Eastern Economics Association that “economists have failed to fulfil their social function” and reminds economists to, therefore, “remember what our fathers’ learned” and that we might “need some kind of sociologist to solve our profession’s

problem”.⁸⁸³ Indeed, we as economists need to take more accountability for the structural, systemic and moral failures of the economy. We are actually supposed to welcome *any* improvements to economic efficiency (for economic sustainability) with open arms.

The way is cleared now to *rethink* conventional economics so that we allow ourselves to move to a new level of thinking. The following (shortened) list of challenges we face, a mere four of them, gives enough reason why we need a serious *transition* in the economy:

- billions of people are living in poverty, engaged in a daily struggle to survive while, as Joseph Stiglitz puts it, we have “scarcity in an age of plenty”;⁸⁸⁴
- greenhouse gas emissions (among other *eco-offences*) are destabilising the global climate;
- national governments, many businesses and multitudes of individuals are *drowning* in debt, while the global financial system is increasingly unstable as risks keep increasing; and
- the health of forests, oceans, marches and other wild places is declining, together with the increased risk of health pandemics (COVID-19), taking the planet to the point of a species extinction crisis, which includes humans, as we are both the cause and the *price-payers*.

Dietz and O’Neill articulate the situation well:

People desperately want to solve these problems, but ... our economic tower is threatening to collapse under its own weight ...[as] a bigger economy is undermining the life-support systems of the planet ... through a perpetual growth trap.⁸⁸⁵

A *great transition* is most certainly needed, not necessarily away from gross domestic product (GDP) growth, but away from the costs that come with such growth. In the linear economy model that we currently have, individuals and interest groups are governed by laws that demand maximum profit, whatever it takes. These laws are inherent in the monetary system prevalent in most countries today.⁸⁸⁶

While the basic principles of neoliberal capitalism¹ demand constant growth in GDP at all costs, the result has, in large part, been financial cataclysms, from the 1929 Great Depression to the global

1 Capitalism has a fundamental *weakness*: it cannot exist without economic growth. Growth, in turn, requires three vital elements: investment, energy and raw materials. Even if a willingness to invest and produce

financial crisis (GFC) of 2007–2009 and beyond. Debt levels have been soaring. Almost every ten years since the 1970s, there has been a major economic crisis² (and in-between many smaller financial crises).

Preventing these crises, and because we have little margin for error, the book asks: *What are the changes required to produce genuine progress?* By and large, this has been addressed, so in this chapter, we will examine more specifically *how* the needed economic transition can take effect. Note that parts of the *how* question have already been answered in earlier chapters. Identified here, however, is some key turning point elements that will put in motion the *wheels of transition* to an inclusive, sustainable economy. As a way of consolidating clarity on a relatively new concept and having explained most of the related concepts, Table 7.1 provides a summary, in one picture, of what an inclusive economy is about: its main characteristics and objectives.

Resetting the coordinates: Key factors and priorities for economic inclusion

The first requirement for transitioning the economy towards greater inclusivity is to recalibrate fundamental *elements* that determine the course of the economy. For instance, to evolve from a linear to a circular model, from growth to inclusive growth, from progress to genuine progress, its basic *sensors* (or, in economics, *indicators*) need to be reset in terms of the new end goal of overall well-being. When applying this in practice, it means:

- switching the *sensor* from an individualist approach to a more collectivistic/communitarian one (covered in the following section);
- switching another sensor from surface-level change to deeper, systemic change (covered in subsequent sections);
- switching from GDP as the main measurement to also include (equilibrate) genuine progress measurements (covered in subsequent sections);

is coupled with a limitless supply of energy, the depletion of any key material resource would lead to the breakdown of multiple systems.

- 2 In the 1970s the oil crisis occurred, in 1987 the US stock market crash (Black Monday), in 1997 the Asian financial crisis, in 2007–2009 the GFC, and in 2020 the global lockdown due to the COVID-19 pandemic, causing economic ruin. It has become so predictable that it creates the impression that the global economy is *designed to fail* every decade. It confirms the fractured and fragile foundation of our current capitalist system and why drastic changes are needed.

Table 7.1: Key composites of an inclusive economy

An inclusive economy Expand opportunities for more broadly shared prosperity, especially for those facing the greatest barriers to advancing their overall well-being, to ensure genuine economic progress for all.	EQUITABLE	Changing the experiences of marginalised people	
		Distribution of economic power and means	
PARTICIPATORY		Upward mobility for all (socio-economic and labour mobility)	
		Reduction of inequality and improved income distribution	
		Equal access to public goods, resources and ecosystem services	
		People are able to access and participate in markets as workers, consumers, business owners and in policy-making processes	
		Decision-making transparency and accountability	
GROWING		Widespread technology infrastructure for the betterment of all	
		Increasing good employment/productive opportunities	
		Improving material well-being as part of overall well-being	
		Structural economic transformation and inclusive growth	
SUSTAINABLE		Socio-economic well-being progressively sustained over time	
		More investments in environmental health and reduced natural resource usage; renewable energy innovation and investments	
		Decision-making processes incorporate long-term costs	
STABLE		Public and private confidence in the future; and comprehensive instruments to better predict the outcome of economic decisions	
		Members of society are able and want to invest in their future	
		Economic resilience to shocks, stresses and financial crises	

(Source: Benner et al. 2018)¹⁰⁰⁹

- switching from innovation that leads to exclusion to it leading to inclusion (next section); and,
- switching from resisting pluralist heterodox thinking and *new economy* movements to seeing how they can be included and their contributions applied to improve the economy (the section after).

Setting higher goals through a new commitment: A social covenant

Setting higher goals starts with a new way of thinking. Are humans really so evil, narrowly self-interested and grasping for an immediate reward that we care not about the suffering of the poor we are creating? Surely we are better than this. But “we must act the new way of thinking and not just think about the new way of acting”.³ Changing behaviour is fundamental to transitioning to a sustainable economy.

It starts with *respecting* boundaries, ecological and human. In the latter’s case: no exploitation of others through excessive profit-taking, overregulation or centralisation of economic power in the hands of a few at the expense of any other economic role players. Next to this is the choice to *take care*: caring for each economic participant and caring about optimising each one’s contribution to the common wealth and well-being of the community/collective while concurrently creating new opportunities for outsiders to participate productively in the economy.

For this to occur, a new commitment is required as part of a *new economic agenda*. Thirty years after the Washington Consensus, we need a New Consensus at the global level, or in the words of David Held, “a global covenant”, to build a shared new reality, with an economy that works well for *everyone*.⁸⁸⁷ Importantly, as Rob Dietz and Dan O’Neill point out, “nations need to find the political will to maintain checks and balances on economic scale and power. Now is the time to cultivate national temperance and intensify international cooperation.”⁸⁸⁸

Balancing the drive for progress with such temperance is what ensures sustainable growth. While collaboration is critical at the global level, it is even more so at the domestic level. Consensus is needed among local role players toward a *new commitment*. What does

3 In the words of the late *Renier Schonken*. A wise man and a close friend whose life made an impact on so many others. We lost him due to COVID-19 during the lockdown in South Africa on 13 January 2021 at a relatively young age. His passing is an enormous loss to the nation of South Africa, the continent of Africa and, indeed, to the world.

this mean? Whether it is in the form of a social agreement, a social compact/accord, or a social covenant, a deeper level of commitment among economic stakeholders is needed than what the *social contract* brokered up to now. The reality is that the social contract is broken. Trust is lost.⁸⁸⁹

A major challenge today is that the social contract that holds society together has become defective. Growing concerns about rising inequality, jobless growth, social unrest and poor global governance are ruining the social contract between governments, businesses and citizens. The deeper issue is the belief that leaders have *betrayed* the public trust and that systems are unfair.⁸⁹⁰ The Pew Research Centre found that trust in governments is at its lowest level in 50 years.⁸⁹¹ In the same way, the credibility of corporate chief executives is plummeting. People have lost trust in *politics and business*, while public scrutiny via social media of companies, institutions and governments is rising. Ironically, although people are empowered through this radical transparency to expose unethical behaviour, they experience a growing disconnect.

This lack of trust diminishes the public's sense of participation in society as well as their social responsibility. It isolates people, resulting in them caring more about survival than solidarity.⁸⁹² A new *social covenant* (or whichever name one prefers) is needed to overcome the broken social contract and meet the fundamental requirement mentioned above.

Whereas the old *contract* model is primarily based on rights, a social covenant formulates a deeper connection since it is based, apart from rights, on *values* and backed up by faith in the other parties involved (resulting in sound accountability and greater transparency). A contract is merely transactional, but a covenant/accord is *morally binding*. For this, the World Economic Forum (WEF) identifies three universal values:⁸⁹³

- The dignity of the human person, whatever their race, gender, background or beliefs;
- Importance of a *common good* that transcends individual interests; and
- The need for stewardship as a concern, not just for us but also for posterity.

While social covenants may differ between countries and groups, this answers people's demands everywhere for new, more transparent, collaborative and inclusive values/norms that prioritise well-being,

happiness and meaning as much as profits. Revealing the changing nature of the world, the idea of a *just economy* and the meaning of a *moral economy* are now openly discussed in the public arena.⁸⁹⁴

A new social covenant between citizens, businesses and governments, especially in communities at the local level, is part of a *great transformation* taking place, which reflects a general consensus to move away from a narrowly defined shareholder economy towards a stakeholder economy, where the interests of everyone, even the environment and that of future generations, are *included*. Shared ethics/norms/values would then guide decision-making at all levels as room is made for moral courage in the economy.

Like *ecosystems*, economies need a balance between efficiency and resilience. Social covenants will raise the efficacy of global, national and local partnerships, bringing about increased accountability, trust and democracy at all levels of governance.⁸⁹⁵ This truly charts a new path away from what Piketty calls “patrimonial capitalism” towards “inclusive capitalism” and the formulation of an inclusive economy.⁸⁹⁶

Importantly though, for such social covenants to hold, there needs to be *mutual respect*. Respect is something that must be earned. Since a social covenant would be primarily based on shared values among the parties involved, it lays a *healthy foundation* for holding each other accountable as regards performance. This builds trust, given that mutual respect and appreciation are consistently exercised. It shows how inclusivity goes hand-in-hand with accountability.⁸⁹⁷ What it also does, as the parties earn each other’s respect, is properly emphasise the *human side* of the economy. Transactions and all kinds of economic exchange then acquire that vital personal element to bring to the fore; that which is of most value in the economy: *people*.

This is important for another reason: economic inclusivity must never create the impression, or allow, that *free-riding* (or laziness) be fostered in the economy and that the marginalised simply be included for the sake of inclusion. It must always be productive inclusion with the *aim* of all economic participants adding value to the economy. It is not about simply redistributing income and/or resources to all those who are income-constrained; it is about sensible and optimal allocation, having an increase in *productivity* in mind. As Thomas Jefferson said, “Democracy will cease to exist when you take away from those who are willing to work and give to those who would not.” This is even more true for the economy.

The challenges related to bringing about true systemic change are so enormous that it requires what is called “transformative

partnerships”.⁸⁹⁸ Addressing economic problems effectively in a relatively short space of time requires nothing less than special collaboration and collective action. Individually and on their own, no business, government, civil group, international organisation or NGO will be able to accomplish what is needed.

A *network* of transformative partnerships on different levels and *between* different levels (local, national, global), all committed to seeing a deep change toward sustainability, is fundamental. Businesses, for example, need to *de-risk* the political process by paying more attention to natural resource depletion and adjusting to it through circular business practices; multinational corporations (MNCs), especially, must place less *political demand* on their capital, i.e., not take advantage of their economic power to manipulate political decisions in their favour, such as to require regulatory changes (e.g., in labour laws) as a prerequisite for investment (foreign direct investment, FDI); and rather put their *energy into how* they can play a much more constructive role in improving democracies, which will benefit everyone, including them. They must learn that it starts with people and the needs that are out there, not their profits only.

While making profits and creating shareholder value is absolutely important (even for economic sustainability reasons), businesses that learn faster to change from an inside-out model to an outside-in model acquire the social benefits first.⁸⁹⁹ In this way (as explained earlier), they create *inclusive value chains* that benefit not only them (in the long term) but their communities, which allow them to do business there, to benefit more in the short and medium-term, which then results in more civil and government initiatives wanting to work with them and assist them to increase the positive impact in communities (e.g., the case of Unilever is a good example of this).⁹⁰⁰ It automatically increases *social trust* (and social capital) and leads to better results for companies, communities and local governments (i.e., effectiveness).

Such *civic-public-private* (CPP) partnerships are the backbone of social agreements or social covenants because the unity that it creates adds a multiplier effect to social change, economic change and improved governance (much like compound interest). It places, for instance, *positive pressure* on governments to become more inclusive and participative as they are included in accountable relationships at the local level (and other levels).⁹⁰¹

Civil initiatives and community-driven NGOs are, in such relationships, either exposed for being money-making schemes or invigorated by the collectivist support and unity of vision they are

sharing with businesses and local governments that truly care about community change. The real significance of this is that it creates a *runway* for the excluded, the marginalised in society, to *take off* and become productively involved in either a business's value chain or a civil initiative where they can carry/support their communities or in local government to ensure people's needs are met.

This *multiplier effect* has the potential to become one of the most powerful organic drivers of social and economic change in history, particularly given the ease and support of today's communications technology at our disposal. Such organic accountability will expose any parties, whether business, government or civic, who exploit people and/or natural resources in order to gain more than their fair share. In such transformative partnerships and relationships, even the issue of *fairness* and *justness* will find an appropriate point of equilibrium, just as the price level does through supply and demand forces.

At the national level, the challenge facing the government and its social partners is to ensure that a national agreement *underpins* inclusive growth, job creation and inclusive development. One of the immediate objectives of the agreement would be to ensure that the depreciation of a currency does not translate into a vicious circle of wage and price increases, resulting in instability in the financial markets and a decline in competitive advantage.⁹⁰²

For this reason, it is critical that wage and salary increases do not rise more than productivity growth. It is equally important that *price restraint* should be maintained, facilitated through an effective competition policy and measured trade liberalisation. In the longer term, a broad *social agreement* could address a wider range of issues related to economic restructuring, income distribution and social policies at the macro level. Orderly collective bargaining between organised labour and employers should remain fundamental to industrial relations.

For its part, the *government commits* itself to an accelerated increase in its contribution to social and community living standards and overall well-being. Most of the policy frameworks and institutional systems must be put in place to ensure at least the following:⁹⁰³

- safeguarding all urban areas as well as growing numbers of rural communities;
- reliable water supplies and appropriate infrastructure for sanitation;
- the delivery of housing and related community services;

- a broad social security net not as much focused on social grants, but rather targeted welfare services and an income-support system to households that attract them to the labour market;
- strong improvement in the quality of education, from pre-primary to tertiary levels;
- improved postal and telecommunications services (including, for instance, faster internet);
- access to land and agricultural support for emergent farmers (monitoring productivity); and
- universal access to primary health care; giving first priority to children and the elderly.

Equally important, the state must provide a *combination* of real exchange rate management and tax incentives aimed at encouraging private sector investment. For workers, this will give certainty that wage moderation will contribute to growth, job creation and social benefits.⁹⁰⁴ For the business sector, this strategy creates an *enabling environment* in which investments can be made with confidence, competitiveness is enhanced, and public policies are clear. Society is also assured that their needs are addressed, and that sufficient labour absorption increases economic inclusivity.

As Prahalad and Hart highlight, “trust is a prerequisite.”⁹⁰⁵ The mistrust between those at the bottom of the pyramid (BoP) and large firms, on the one hand, and governments, communities and smaller businesses, on the other hand, runs deep. MNCs often assume that the default rate among the poor is likely to be higher than that of their rich customers. The opposite is true in many cases. The poor mostly do pay on time, and default rates are relatively low. ICICI Bank found that, out of a customer base of 200 000, the default rate is less than 1%. The default rate at Grameen Bank, a microfinance pioneer in Bangladesh, is less than 1.5% among 2 500 000 clients.⁹⁰⁶

The lessons are clear. Through persistent effort and the provision of world-class quality, private-sector businesses can create *mutual trust* and responsibility between their companies and low-income customers. Undoubtedly, the mistrust barrier is difficult to break after many years of suspicion and prejudice based on little evidence and much stereotyping. Yet, building trust has become non-negotiable.

The whole idea behind promoting *mutually reinforcing* relationships is to create win-win situations as far as possible. Take policy as an example. Policy-makers, to strengthen the growth-poverty-inequality nexus, simply have to find ways to shape a policy mix that combines growth-promoting policies with policies that allow

the poor to contribute to the growth process, leverage opportunities created by growth, and for those who are side-lined in the growth process, to share in the benefits of such growth. This kind of inclusive growth addresses improvements in incomes in both absolute and relative terms as well as enhances the productive capacity of the poor.⁹⁰⁷ This is not merely optional; it has become a *prerequisite* for not only effective policies but for genuine progress.

People experiencing overlapping exclusions tend to suffer from extractive growth, poverty and income exclusions. Involving these people in processes related to inclusive and sustainable development calls for urgent and proactive policy actions. To promote peace and shared prosperity in Africa, for instance, prioritising people in multiple deprivations, and starting with those who are the furthest behind, requires deliberate legislation (including discrimination laws), policies and programmes that prioritise and facilitate (in *transformative partnerships*) accelerated development outcomes for the poor and marginalised.

Redistribution of national assets such as physical infrastructure, health and education facilities, and land, particularly to small-scale farmers, is vital for addressing *overlapping exclusions*. Many of the mutually reinforcing actions that could help address the growth-poverty-inequality triangular fiasco and accelerate inclusion could be activated by specifically the interaction between local and national levels of economic governance.

It also involves creating *cross-sector partnerships* in line with Goal 17 of the Sustainable Development Goals (SDGs) (partnerships for sustainable development).⁹⁰⁸ Goal 17 proposes crossing institutional boundaries to address the other sixteen Goals, including poverty, food shortage, clean water, climate change and inequality. Notably, these partnerships extend beyond vertical integration and horizontal integration in the supply chain. These are partnerships with institutions from other sectors such as non-profits, social enterprises and governments.

As stressed earlier, the *ecosystem* of stakeholders is comprehensive and diverse. Business-non-profit partnerships are vital to the possible implementation of ecosystem orchestration in practice. To improve inclusive business, it is important that businesses explore, in their own community setting, possibilities relating to how they can build and manage business-non-profit partnerships to address the socio-economic and environmental concerns of communities.

Arguably the key issue in managing a partnership is *sustaining* the participation of all partners over extended periods of time. This involves appreciating the different phases through which the partnerships (that could also include the state) very often go (i.e., a *collaboration continuum*):⁹⁰⁹

- *Philanthropic stage*: the company is a charitable donor channelling a unilateral transfer of financial resources to the non-profit.
- *Transactional stage*: a reciprocal exchange between the partners, with a functional relationship relating to specified activities, such as employee engagement opportunities.
- *Integrative stage*: an organisational integration of values or the mission of the two/more partners based on what they have learnt from their partnership experience.
- *Transformational stage*: value is created at the societal or community level, rather than for either of the partner organisations to find a solution(s) to the community's problem(s).

Something that can add significant value to everyone part of a social covenant/agreement is *socially inclusive innovation*. There has at times been non-acceptance of a given innovation by society, or non-implementation of a given technology due to legislation not being adapted accordingly, or when the technology is considered too radical or highly controversial. This, however, has not reduced the need for socially inclusive and responsible innovation, especially given that corporate competitiveness and sustainable growth largely depend on societal appreciation for technological innovations.⁹¹⁰

The key to such societal appreciation is to open up innovation processes through the engagement of organised stakeholders and the public at large. The *societal incubator*, which has been successfully employed in Europe, is a specific methodology that caters to the need for social intelligence about uncertainties and the unknowns generated by innovation processes.⁹¹¹ Just like cultural and social contexts differ, so do histories. This leads to different aspirations in different societies, which also plays a role in determining what innovation will work and what not.

Values and culture are not just crucial in themselves; they also affect how an economy *performs*. Research has shown that a society in which people have trust in one another does better (prosper more) than one in which people do not.⁹¹² While broad policy principles may exist, there always has to be space for diversity and context-specificity of policy that integrate social norms and mindsets.

As we *rebuild* communities in the wake of the COVID-19 pandemic, it is vital that we have guiding frameworks supported by social agreements, CPPs, social pacts or social covenants. The isolation and economic ruin have brought unprecedented levels of distrust, which need to be *turned around*. Social covenants may, in fact, be what is necessary to save capitalism. With little backing up currencies, trust is what holds capitalism together. If trust is not restored, capitalism is a (or in) serious danger – even posing an existential threat to humanity.

But taking it further, policies that work for everyone, a collaboration that protects everyone's economic freedom and addresses the systemic and structural deficiencies in such a way that it *decentralises* the economy (i.e., less dependent on government and/or strong economic role players) will be defining features of a new, inclusive economy. The private and public sectors have become opponents; this while they should actually be collaborating, together with civil society, to broker a *new consensus*.

The realisation, in the wake of the pandemic, that life is a gift – and so is everything we have – has become a renewed reality as lives have been lost, and families had to endure severe hardships, spurring community members, friends and other family members to support them. Such solidarity, which finds its origin in the family unit, is desperately needed in the broader economic framework as well. We have to establish a *family of caretakers* in the economy that will reset its coordinates.

In the family model, we don't ask, "Who makes the most profit?" We first ask, "Does everyone have enough?" Of course, one cannot build a whole economy on exactly the same method as a family, but it is important that the economy guards and integrate such family (*oikonomos*) principles in how it evolves. We are more than machines which produce; we are humans who care and take care.⁹¹³

When we incorporate, not exclude, virtues and shared values, we are setting *higher goals* (encapsulated in a social covenant). It then becomes organic like a tree, which grows exponentially. The lesson to be learned from a growing tree is that: you don't build a tree; you grow it. It also applies to economic growth: when it is inclusive, it has long-term exponential growth capacity if given the freedom to grow organically and if all role players contribute to its growth. Organic growth is multi-directional (in that all cells, in other words, productive units, contribute) and not just one-directional *profit-seeking* (tunnel vision).⁹¹⁴

Growth and replenishing must go together as part of a broader concept of growth that ensures wider sustainability and exponential growth potential. A blossoming tree is a perfect analogy for this because it does not use exclusion to grow; it rather uses expansion (inclusion) to grow. We can, therefore, as Figure 7.1 shows, identify three main sets of *relationships* that balances an inclusive economy: productive capability, social capability and overall well-being.

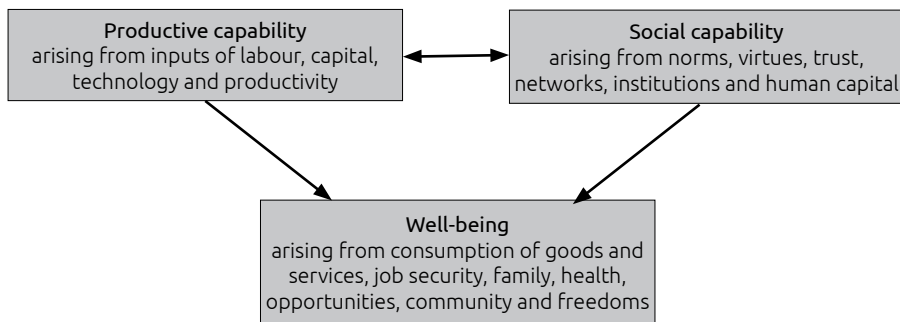


Figure 7.1: Relational balance within an inclusive economy (Source: Claridge et al. 2001)⁹¹⁵

Most often, significant *goodwill* is available in the economy and in society, but it will only be fully unlocked and take proper effect through good ethics and a good moral code.⁹¹⁶ In this way, the necessary *trust* will be built to change economic behaviour, combining generosity in a new economic system with healthy and just profit-making as well as fair price setting. *Respecting limits* through constrained behaviour by all economic participants leaves enough space for the economy to thrive, with or without GDP growth. When genuine economic progress is the shared motivating factor for economic role players, the result cannot be anything other than a gradual and sustained improvement in *overall well-being*.⁹¹⁷ My hope is that a renewed ethic of economic responsibility gains full acceptance within the whole of society. Such an ethic of mutual responsibility seeks to pursue the interest of others above self-interest. At the heart of it is *genuine care* for fellow participants (and potential participants) in the economy and a genuine seeking of economic justice.

Improving everyone's quality of life, including the marginalised, is, in the end, not determined by how much each can get but by how well we can *work together* to turn goodwill, as part of a social covenant, into economic capital that will benefit all because we keep prioritising

inclusivity. As with so many notable societal changes, it starts with ordinary people taking collective action.

Transitioning by means of systemic change in the economy

In moving the economy beyond the point of only *reacting to symptoms* (crises, market failures and poverty), deep systemic and structural changes are necessary in order to ensure (not just try to make an attempt at) sustainability. Without space permitted to delve into all the systemic and structural changes that are required, many of which have already been covered earlier, the aim here is to point out some of the most *acute* changes needed (and the reasons behind them) from an inclusive economy perspective.

Finding remedies for the changes themselves (i.e., how they can take effect) and how *actualising* such changes can provide remedies to the whole economy is what needs researchers' and practitioners' urgent attention. If we want to see a *step-change* instead of merely incremental change toward a sustainable economy, we need to prioritise inclusivity in the fabric of the economy, making it part of every sphere and every sector and all economic endeavour.

Inclusive structural change in the economy means moving from exclusive structural factors/causes to attaining inclusive outcomes. Since *structural change* normally involves a shift or change in the basic ways a market, economy or industry functions/operates, in an inclusive economy context, it implies:

- a shift of production towards assets based on higher knowledge (innovation) and skilled labour;
- reorganising the economy from a linear into a circular, more efficient structure (i.e., regenerative); and
- incorporating the redistributive qualities of a resource and collaborative economy.⁹¹⁸

Inclusive structural change is more focused on shaping new pathways and patterns towards *reordering* economic priorities (evolutionary change) than completely overhauling the way in which the economy functions (revolutionary change). The goal is to *remedy*, not to replace. However, this does not mean that moving from an extractive economy that tends to exclude to an inclusive economy does not comprise drastic change, that is, *unplugging* from supercapitalism and, in a sense, *rebooting* the economic system.

This is, of course, more complex than it sounds, but to give a glimpse of the dynamics involved, Figure 7.2 illustrates the

interrelationship between inclusion, structural change and innovation. The *first* aspect to observe is that innovation and structural change could have inclusive or exclusionary outcomes. Economic growth and structural change tend to reduce poverty, but the extent to which they do so depends on how income gains are distributed (i.e., how *inclusive* growth is).⁹¹⁹ In turn, innovation might increase productivity and growth but is often disruptive and may have negative distributional consequences.

Secondly, there is a potential trade-off between innovation, structural change, and inclusion to be taken cognizance of. A variety of variables may significantly influence the impact of innovations on structural change and inclusion, such as capabilities, characteristics of the technology (e.g., capital intensity and scale), sectors, final demand, geographical characteristics and institutions. So also, various *actors* play a role in that they are responsible for carrying out, channelling and adopting different forms of innovation.⁹²⁰ The way in which they interact may strongly influence the impact of innovation on structural change and inclusion.

Thirdly, depending on who wins and who loses, innovation may either include or exclude. Innovation may, at the same time, lead to more or less structural change at the national level, for instance, by increasing productivity across sectors and increasing the share of employment in productive sectors. More structural change, though, may be related to more exclusion if, for example, large parts of the population do not have the *skills* to be employed in highly productive sectors and remain un- or underemployed.⁹²¹ Hence, in terms of outcomes, structural change and inclusion, as shown in Figure 7.2, may be conducive to pathways of higher inclusion but lower structural change or more disruptive change, which results in exclusionary outcomes.

However, there may also be *conditions* (determined by variables, actors and their interactions) under which innovation leads to both structural change and inclusion, which may reinforce each other in a *virtuous circle*. This is where policy and inclusive institutions play a vital role. For example, when including more actors in the innovation process, with more *access* to technological capabilities, it increases a country's opportunities to innovate as well as its productivity across sectors and the share of employment in productive sectors. Innovative labour absorption is thus a primary goal of structural change.

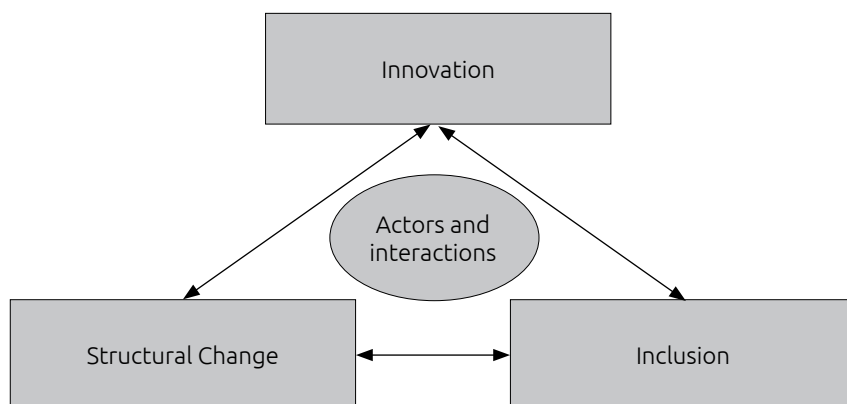


Figure 7.2: Structural change towards an inclusive economy (Source: Ciarli et al. 2018)⁹²²

Inclusive development arguably provides the most constructive framework (see Figure 6.9) for guiding and directing actors, their interactions and controllable variables toward *ensuring* that innovative structural change enables/facilitates greater economic inclusion. Without discussing the framework again, a number of *priorities* for structural change can, in this context, be identified:⁹²³

- *Innovation and technology transfer for inclusive structural change:* The innovation space is a continuum, ranging from formal research and development and *old generation* technology transfer (e.g., trade and FDI) to indigenous, informal and grassroots innovation. All these are part of the Fourth Industrial Revolution (4IR). It is vital to initiate a process of local and endogenous change by ensuring scalability and persistent change. Regional and local embeddedness should be prioritised over entering, for example, global value chains too prematurely. In the context of inclusive structural change in low-income countries, this calls for a thorough revision of the potential roles of trade, industrial policy and innovation policy, and, very importantly, their integration into a coherent platform of instruments.
- *Addressing the political economy challenges related to inclusive structural change:* Innovation and industrial policies should lead to the identification of relevant opportunities for indigenous innovation and make sure that such innovation is scalable and made endogenous to change. The main challenge is aligning the incentives of actors as diverse as communities, entrepreneurs, consumers, donors, policy-makers, the private sector and MNCs. One solution can be feeding innovation incentives into existing

- market incentives that are beneficial to inclusion while fighting perverse incentives; another solution could be to create these virtuous (innovation and inclusion) market incentives from anew;
- *Measurements and indicators for inclusive structural change:* Apart from genuine economic progress indicators, measures to capture the value upgrading and the degree of inclusivity of innovation should be considered, plus devising properly designed mixed methods that bridge data analysis and case studies (from a research and policy learning perspective);
 - *the patterns of structural change should sufficiently involve marginalised people in the processes of growth:* Redistribution alone is insufficient in creating inclusive development; people need to be included in the productive processes of economic growth through especially accessible and remunerative employment;
 - *The reallocation of economic activity towards higher productivity activities:* In this way, economic growth led by structural transformation is likely to be sustainable in the medium term, particularly if combined with pro-poor growth objectives and *growth with equity*. Structural transformation, even when interpreted as industrialisation, can go hand-in-hand with inclusive growth, but then the manufacturing sector must have the ability to create *value-added* and a vast number of *jobs*. This can occur when these two issues are addressed: industrial policies tend to focus on moving up the value chain rather than creating employment; policies for inclusive growth tend to focus on making the fruits of growth or opportunities distributed fairly across society and less on growth drivers;
 - *Mitigating the adjustment costs arising from structural change:* This should occur mainly through:
 - empowering individuals to become more productive, adaptable and versatile through access to education and skills development;
 - supportive of broad-based political and social structures, including good governance, institutions and social protection systems or/and social safety nets to protect the poor and the vulnerable; and
 - other factors, such as financial inclusion, infrastructure development and no/low-cost internet access;
 - *Structural policy changes that impact the distribution of wealth and well-being positively:* This will channel the creativity and social mobilisation abilities of civil society in the right direction,

- i.e., towards changing systemic failures into new ground-level systemic solutions, using people's collective power (i.e., economic and political power to the people);
- *Inclusive growth, driven by thriving business enterprises:* When broad-based business sector development is combined with social transfers, it helps to make growth more inclusive, as research has shown.⁹²⁴ Such gains need to be driven, though, by a rapid pace of job creation and be supported by productivity gains. Reducing labour tax wedges for low-skilled workers could also be considered, together with expanding earned income tax credit type support and differentiating minimum wages as per a country's regional conditions;
 - *Sustainable natural resource management:* This should be combined with access to affordable clean energy, all being part of the evidence-based analysis and national strategies to foster inclusive growth and development within ecological limits. Increase support for regenerative agricultural practices that minimise environmental impacts, including deforestation, losses to biodiversity and nutrient run-offs into water bodies. Other related aspects include adopting green technologies to reduce or eliminate the use and generation of hazardous substances; and innovations for products whose methods of production have the lowest possible impact on the environment;
 - *Donor assistance and partnerships for poverty reduction through better urban planning and governance:* Donor assistance could support innovative municipal, civil society and community initiatives to improve education, housing, health, sanitation and other basic services in slum/township settlements. Technical assistance to improve planning, inter-agency coordination, regulatory frameworks and the governance of expanding cities could provide valuable ways of smoothing transitions to more urbanised economies while reducing the negative externalities related to rapid urban growth;
 - *Special attention to youth unemployment:* In many developing countries, this is the Achilles heel of economic inclusion as multitudes of young people either cannot find employment and join criminal networks or are underemployed or do not have the proper education or are unemployable. *Collective action* by businesses, communities and government (as part of social covenants) is needed to address this issue from all sides: skills development; preparing them for the workplace (e.g., the *Work 4 A Living* initiative that started in South Africa); new employment

opportunities (and internships); and entrepreneurship prospects. An *integrated plan* involving all role players is necessary for this but also to make certain that both quantitative and qualitative improvements in employment occur in order to ensure that structural transformation is inclusive;

- *Guiding the economic shift:* The path of structural transformation in modern high-income countries has typically entailed an initial shift from agriculture to industry and then to services. *Premature deindustrialisation* occurs when developing countries leapfrog from agriculture to services, bypassing manufacturing. There are important spillover effects in manufacturing that raise overall productivity and employment in an economy, which need to be harnessed through conscientious policy-making. Although services can provide an alternative *engine of growth* in view of the increasing tradability of services and potential for increasing returns, it has the capacity to act as both a leading and a lagging sector in terms of driving aggregate labour productivity growth. For this reason, the heterogeneous service sector, which includes high productivity sub-sectors (such as finance and business services) and traditional and non-market sub-sectors, needs *policy assistance* to ensure that its high productivity sub-sectors gain a larger share of employment to get the same scale effect as manufacturing. While technological advances may provide an opportunity for developing countries to leapfrog over old technologies and arrive at a new development pathway, there are also concerns that increasing *automation* (e.g., industrial robots taking over jobs) may foreclose a proven development pathway. This must be prevented.
- *Constantly link top-down and bottom-up development:* Many meso-level organisations evolve from a combination of bottom-up demand and top-down strategic processes. The latter is when new ideas are introduced from an authoritative level, whether it comes from a hierarchy, an organisation or society. *Bottom-up* is about participation, democracy and choosing collectively between different options. There are cases where top-down makes sense, e.g., adopting international standards for food safety. In other instances, an imperfect local solution *agreed to* by many stakeholders can be more effective than a mandated one that people do not adhere to. In this way, top-down institutions can be shaped by bottom-up requirements unique to each region/industry. Understanding how top-down and bottom-up can be *connected* and better integrated can enhance development

cooperation, giving voice to marginalised actors and stakeholders who seldom get to shape public services and regulatory processes. Finding inclusive solutions like this, involving the lowest possible level in society, helps them to emerge so that they can respond to specific contexts;

- *Usership vs ownership*: Transitioning towards incorporating elements of the resource-based economy is redefining some core tenets of capitalism, especially given the tech support of open-source capabilities and antifragile systems using blockchain technology and AI (process automation). Millennials very often prefer usership to ownership, and they tend to have a higher appreciation for economic sustainability and equity than prior generations.

The COVID-19 pandemic and resulting economic disruptions have *unmasked* and amplified the inequalities of global economic systems. The most disadvantaged were affected the worst. Low-income groups, small-scale food producers, those with limited access to finance and municipal services, and those who work in the informal sector have suffered disproportionately.⁹²⁵ For many of them, it is a crisis within a crisis. The pandemic, sadly but actually, presents the ideal opportunity to *rethink* the economy, entrench structural change, and align it with sustainable principles that also include addressing the root causes of economic inequalities.

Research is now showing that inclusive economies are recovering *better* from the shocks of the COVID-19 pandemic: a one-point increase in social acceptance suggests a three-point increase in that economy's Economic Resilience Index (ERI), even when controlling for GDP per capita.⁹²⁶ The fact is: it cannot be business as usual after the pandemic, not just because the crisis has reshaped our local and global realities, but because people will increasingly *question* the endless pursuit of economic growth if a small percentage of society is getting richer and others are working harder and harder just to maintain their living standard (not even mentioning those who have lost their jobs/income).

When considering how to enhance an economy's *shared prosperity*, there is often an overemphasis on the distributional and employment aspects, while we tend to forget the importance of the biosphere and environmental sustainability, without which any shared prosperity will be short-lived. The relationship between humans and nature is at the heart of sustainability.

The *central aspect* here is this question, as pointed out by Andres Edwards: "How can we live in harmony with the natural world and

create a healthy and vibrant economy that supports all life on the planet?”⁹²⁷ The role of nature as a model and teacher to guide human actions undergirds an important and emerging environmental ethic. In terms of structural change, it calls for heightened sensitivity to our human impact and responsibility as we and all other species depend on the ecosystems in the biosphere for survival. This is central to systemic change.

Put into proper use the new approaches to measuring economic progress

Quite sobering, as Dean Baker states, “no serious economist would argue that economic growth is a comprehensive measure of well-being. It is a useful measure in the same way that weight is a useful measure in determining whether someone is healthy.”⁹²⁸ To this, Fioramonti adds:

For the well-being economy to become a reality, we need to start by changing the institutional parameters that we use to define success in economic policy. For as long as GDP growth is the country’s headline objective, we will continue investing in large-scale vanity projects, we will keep on subsidising large corporations while stifling small enterprises, and we will squander money through inefficient government departments. A new set of objectives will, by contrast, create new incentives for politicians and business leaders, thus triggering a cascade effect throughout society and an awakening of new energy in communities, families and all progressive actors in society. The good news is that we have these tools already. We know how to measure genuine progress, human development and inclusive wealth. All we need is political will. In the absence of that, we require a strong popular push to promote a new approach to prosperity that is in line with our ideals as human beings who aspire to a better future.⁹²⁹

Everyone wants genuine progress. The issue/misbelief is thus not GDP growth per se but the obsession with GDP growth. Having already discussed and explained a number of genuine economic progress indicators (to be used *with* GDP, not as a replacement for GDP), the concern we start addressing here is *how* to put such measures into proper use so as to help the economy *transition* to become truly sustainable.

When adopting better measures of economic progress, one of the first steps is to agree on new economic goals: “goals that recognise that our economic system is a tool for improving well-being and not something to grow mindlessly for its own sake”.⁹³⁰ The new goal we have identified in the previous chapter can be summed up by what is called “overall well-being”, something that is also reflected in the SDGs.

It is vital now, especially after seeing the effects of the global pandemic, that an open and transparent process for inclusive global dialogue fully takes effect on how exactly to attain the new goals and for building consensus on how progress will be *measured*. The process must involve all relevant stakeholders and define each participant’s contribution towards the goals and how that contribution can be evaluated so that policies, programmes and plans be adjusted as needed to ensure genuine progress.

Perhaps, most significantly, is that instead of it resulting in increased competition, a *new purpose* comes to the fore: defining common goals, working together to attain them and *measuring* each country’s, community’s and individual’s contribution towards those goals.⁹³¹ In this way, collaboration instead of competition starts *repurposing* the economy. What will also take this a step further is to, in the process, collectively redefine the economic problem.

In an age of plenty, the main issue is not scarcity; it is *unequal distribution*. In light of concerns like natural resource depletion, rising oil prices, economic uncertainty, health pandemics, growing inequality, financial collapse and global social unrest, the greatest challenge is to not become so *distracted* with all the urgent matters that we miss what is important.

Comprehensively addressing the issue of unequal distribution requires collective effort (collaboration). At the heart of it is finding and using measures (which include metrics as well as economic action) that will enable us to ensure appropriate resource allocation, income redistribution and productive participation. No doubt, this also involves altering the discussion’s focus from *growth* to *progress* and from economic production to sustainable human well-being. It is indeed a paradigm shift.

Two axioms that are very true remain: *what gets measured gets managed*, and *what gets measured gets done*. What makes this challenging at a national and global level is that the measurements, actions and results are not the responsibility of, or under the control of, any single individual, organisation or even nation.⁹³² As a result,

there is a disconnect between actions and outcomes that leads to persistent shortfalls in genuine economic progress. We, therefore, need to fully embrace the *new paradigm* and apply its measures at all levels of society, from the international level to the individual level, to address this disconnect. What is good in this regard is that when inclusivity increase, accountability also does.

While it is important to have robust and effective measures of progress, what is *unhelpful* is arguing about which is the best or correct measure.⁹³³ The aim is not an academic exercise to find the perfect indicator but an ongoing, exploratory global dialogue to agree on workable solutions. All indicators are proxies and limited in scope. Therefore, a *combination* of measures is what's required, especially when it comes to the complexities of social and economic progress. Where the consensus is needed is in being committed to developing better indicators to set policy, inform decisions and measure progress as it evolves. The *shared aim* ought to be to use the appropriate indicator(s) for the appropriate task.⁹³⁴

The purpose of national progress indicators is to act as a dashboard that provides signals/signs as to whether national-level policies and programmes are moving economies in the right direction and whether local-level economic interactions are improving people's well-being. Given the complexity of the problems confronting humanity, a single indicator will, in all probability, not be sufficient; a comprehensive set of integrated indicators (as highlighted in previous chapters) may be most effective in functioning as a *compass* for the economy.

Two measures that do warrant special emphasis again as regards measuring genuine economic progress is the GPI and determining a *net growth rate*. The GPI has already been unpacked in previous chapters, so there is no need to repeat any of that. However, what should be highlighted is that it has been applied at the national level to over 20 different countries. As Stephen Posner points out:

The results of each study show the same general trend of an overall rise in GDP despite either a leveling off, falling, or more slowly rising GPI. In some cases, GPI may be positively correlated with GDP up to a certain point in time, beyond which the two indicators diverge.⁹³⁵

This observation implies that when GDP grows beyond a certain scale, additional economic growth, as measured by GDP, rarely leads to increased genuine welfare. This means that as an economy grows

larger in GDP terms, the costs of economic growth eventually begin to outweigh the benefits from a welfare perspective. Many of the studies offer compelling evidence in support of the *threshold hypothesis* and reveal a clear point in time when GPI begins to diverge from GDP, usually around 1970–1980.⁹³⁶ Notably, this body of work at the national level calls into question the welfare impacts of policies designed to *only* grow GDP and suggests that GPI may be a more useful tool for gauging welfare (or at least human well-being).

Studies at the local scale (or sub-national level) have also found GPI helpful in understanding the full range of welfare impacts resulting from marketed economic activity.⁹³⁷ GPI has been particularly valuable at the local level by informing debate and stimulating questions about the nature of the economic development process.⁹³⁸ The GPI can provide a time-series measure of elements that contribute to the quality of life and can *draw attention* to critical development issues such as the distribution of resources, the costs and benefits of production and consumption, as well as the value of non-market goods and services. Interestingly, the sub-national GPI studies do not reveal as sharp a divergence between GPI and the regional GDP-equivalent as national GPI studies do.⁹³⁹

While a clear threshold does not emerge every time in these local studies, regional estimates of a GDP-equivalent consistently overstate the welfare of regions when measured with GPI, and GDP-equivalent growth rates are constantly found to be higher than GPI growth rates after 1980. GPI should be adopted at the national and local levels.

As mentioned, the other area that needs to be emphasised is developing and determining a widely acceptable *net growth rate*. Although still in exploratory/discovery mode, an agreed-upon net growth rate will help, as a concise and standardised measure of real economic activity, to assess and compare the true state of the economy, which can be used by policy-makers as a *nutshell* indicator that could become even more influential than GDP.

Simplicity and articulation are key; it must be straightforward and say what it means (to say). Although more research is required in this area, perhaps one example of this that could be either it or a step closer is the following formula:

$$\text{Net GDP} = \text{GDP} - g - s$$

or put differently,

$$\text{Net GDP} = C + I + G + (X - M) - g - s$$

Where:

Where:

GDP	$= Y = \text{National income}$
C	$= \text{Consumer spending}$
I	$= \text{Investment}$
G	$= \text{Government expenditure}$
X	$= \text{Exports}$
M	$= \text{Imports}$
g	$= \text{Negative environmental impact}$
s	$= \text{Social costs of growth}$

Equating national income (Y or GDP) to total expenditures and cost (g and s) could be an appropriate instrument for determining *Net GDP* or net growth.⁹⁴⁰ Standard measures for each of the GDP components are established and available, so the measure that is recommended here, given data availability, for determining g is the System of Integrated Environmental and Economic Accounting (SEEA); for determining s, the social cost portion of GPI is recommended.

As a way to gauge/test the validity/reliability of the *net growth rate* indicator, different measures of inclusive growth can be used in combination, such as the EPR (employment-to-population ratio), benefit-sharing ratios (e.g., the poverty headcount ratio (H) and the Gini coefficient (G)), and the Global Database of Shared Prosperity (GDSP).⁴ In addition to this, more comprehensive measures are required to determine social welfare, genuine economic progress and human well-being.

Using a combination of the GPI, the Human Development Index (HDI), the Gross National Happiness Index, the Social Progress Index, the Well-being Index, the Life Quality Index (LQI) and the Better Life Index (BLI), and other similar indicators, could work well. The principle of using the *net growth rate* (or a measure of inclusive growth) and the GPI and/or a *well-being indicator* together in assessing real improvement in quality of life or living standards is the appropriate way going forward.

For such indicators to determine the degree of economic inclusion effectively, a fine balance needs to be struck between simplicity and

4 Note that these ratios are explained in Chapter 2. Using it in combination means measuring from different directions.

comprehensiveness in measurement. The key, ultimately, is that these types of assessments are not just peripheral or in abstract national terms but become *integral* in all economic planning, from households to businesses to governments.

Innovative inclusion in the 4IR to advance the transition

Instead of innovation leading to exclusion, *inclusive innovation*, particularly as part of economic development, is crucial as we enter the 4IR. Given that the income-constrained are not able to invest or take the lead in innovation, they are often excluded from its benefits and/or the last to benefit from it.⁹⁴¹ This is not to say that they are morally entitled to its benefits, but excluding them from most, if not all, of the innovation process widens the gap between rich and poor (e.g., increasing the *digital divide*) and raises societal risks.

It is vital to integrate the marginalised meaningfully into innovation processes and, as they deserve it, in its benefits to reduce inequality and increase inclusivity. In fact, starting to *think inclusive* about innovation might open up new avenues for inventions that significantly assist the poor in catching up faster. On the other hand, the technology revolution should not automatically be seen as the *saviour* of the poor and the world's problems because it is *not* due to its contradicting complexities, negative externalities and trade-offs.

Rather, an intentional and consistent process should be followed to include and integrate low-income groups productively in economic development, especially in *co-creation*. Mainly two broad and overlapping approaches for inclusive innovation in economic development exist:

- A *grassroots approach* stressing social and political empowerment, rooted in community self-sufficiency, autonomy and traditional systems.
- A predominantly *market-based approach* strongly emphasises market readiness and participation with the aim of transforming rural social practices (including the organisation of space and time, the meaning of production and the role of women), raising the potential for market participation.⁹⁴²

Both of these approaches are important for *activating* the poor's involvement in innovation, depending on where they are based (e.g., rural or urban, and social structure) and the mindsets they have (e.g., desire to develop or not). Within this context, primarily three framings of *inclusive innovation* can be identified:

- *Increasing productivity* and creating ownership and responsibility in rural production (rearranging time and space; changing the meaning of productive output; and learning to apply principles such as self-empowerment, self-reliance and innovative collaboration).
- *Transformative innovation systems* as part of development (inclusive business models; transforming the socio-cultural factors that hamper/inhibit innovation, and addressing the mismatch between the needs of the poor and what the markets (product and labour) offers).
- *Pro-poor innovation networks* (connecting the poor with science and technology as instruments for social revolution (also overcoming class oppression), including them in disruptive innovation, and building networks to deliver practical, usable technologies).

In all three framings, inclusive innovation is positioned as an indispensable element for providing development *solutions* for low-income groups. As a concept, it is still interpretively flexible, plural and hybrid since it falls within the intersection between innovation, development and poverty alleviation.⁹⁴³ As it becomes translated within the broader discourse of development (post-2011), inclusive innovation rediscovers and *connects* the roles of science, innovation and technological change as instruments for development and social and political transformation.

So, if one examines technology and development, one needs to understand inclusive innovation. Christopher Foster and Richard Heeks *define* it as “the means by which new goods and services are developed for and by marginal groups (the poor, women, the disabled and ethnic minorities)”.⁹⁴⁴ Gerard George et al. describe it as “the development and implementation of new ideas which aspire to create opportunities that enhance social and economic well-being for disenfranchised members of society”.⁹⁴⁵ Emphasising *another side*, The Innovation Policy Platform delineates it as

Innovations in products (goods and services) and/or processes and product delivery systems, which address the needs and improve the welfare of the excluded due to poverty, handicap or location. Inclusive innovations may foster inclusion in production, in consumption, in the innovation process itself and by promoting the agency of the excluded. They may also contribute to environmental and social sustainability.⁹⁴⁶

By repurposing innovation, inclusive innovation takes a *different view* of development than conventional paradigms of innovation. The latter (often implicitly) understand development as generalised economic growth. By contrast, inclusive innovation explicitly conceives development in terms of *active inclusion* of those who are excluded from the mainstream of development.⁹⁴⁷ Differing in its foundational view of development, it, therefore, refers to the inclusion within some aspects of innovation, groups who are currently marginalised.

To better understand it involves different levels or steps on a *ladder of inclusive innovation*, with each succeeding step representing a greater notion of inclusivity in relation to innovation. They can be summarised as follows:⁹⁴⁸

- *Level 1: Intention.* When the motivation behind a specific innovation is to address the needs or wants, or problems of the excluded group.
- *Level 2: Consumption.* When innovation is adopted and used by the excluded group, i.e., concrete goods or services that can be accessed and afforded by the marginalised, the excluded group have the motivation and capabilities to absorb the innovation.
- *Level 3: Impact.* When an innovation has a positive impact on the livelihoods of the excluded group. This may occur in a variety of ways: greater productivity and/or greater welfare/utility (e.g., improved ability to consume); observable improvement in well-being, livelihood assets, and capabilities; and/or the excluded group benefited more than the *included groups* from using the innovation.
- *Level 4: Process.* When the excluded group is fully or partially involved in the development of the innovation. This may involve any of the sub-processes of innovation: invention, design, development, production or distribution. Some may be involved in the upstream elements and others in the downstream components of the value chain. The extent of involvement is equated with different levels of inclusion. Sub-steps here can include being informed, being consulted, collaborating, being empowered or controlling.
- *Level 5: Structure.* When innovation occurs within a structure that is itself inclusive. Given that inclusive processes may at times be temporary/shallow in what they achieve, deep inclusion requires that the underlying institutions, organisations and relations that make up an innovation system are inclusive. This might require either significant structural reform or the creation of alternative innovation systems.
- *Level 6: Post-structure.* Innovation is inclusive when it is created within a frame of knowledge and discourse that is itself inclusive.

Since powerful actors, in many cases, determine societal outcomes, innovation is considered truly inclusive only if the framings of the actors involved in the innovation allow for the inclusion of the excluded.

Figure 7.3 provides a map or outline of the stakeholders involved in inclusive innovation, varying between more and less powerful actors. Their interactions can be seen as well as their *shared concern* for the excluded (including those at the BoP) via collaborative innovation). Figure 7.4, which directly follows Figure 7.3, depicts an inclusive innovation model, which comprises an *Innovation times Equity* matrix. It is a useful tool for analysing innovation and equity in a given project or proposed solution.⁹⁴⁹ The Innovation axis indicates whether the project is *adapted* from an existing solution or is *novel*, i.e., significantly different and ready to scale. On the Equity axis, the project is analysed to determine *who has access* and whether access *promotes equity* or reinforces opportunity gaps. Inclusive Innovation seeks to move solution designs from quadrants A and B to C and D.

After this, Figure 7.5 shows a process map for inclusive innovation. It serves as a *process-benchmarking* of role players' readiness for inclusive innovation (the input side), scaling inclusive innovations (constantly enhancing the learning process), optimising the impact/benefit of their actions (outputs and outcomes), and monitoring and evaluation of inclusive innovation (making sure there is genuine economic progress among those in the excluded group, an improvement in their quality of life and overall well-being, plus a reduction in inequality).

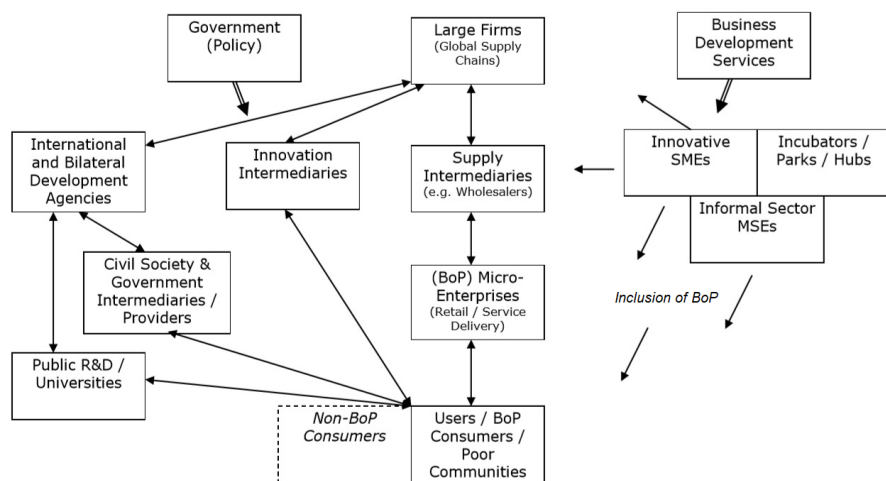


Figure 7.3: Stakeholder map of inclusive innovation (Source: Heeks et al. 2013)⁹⁵⁰

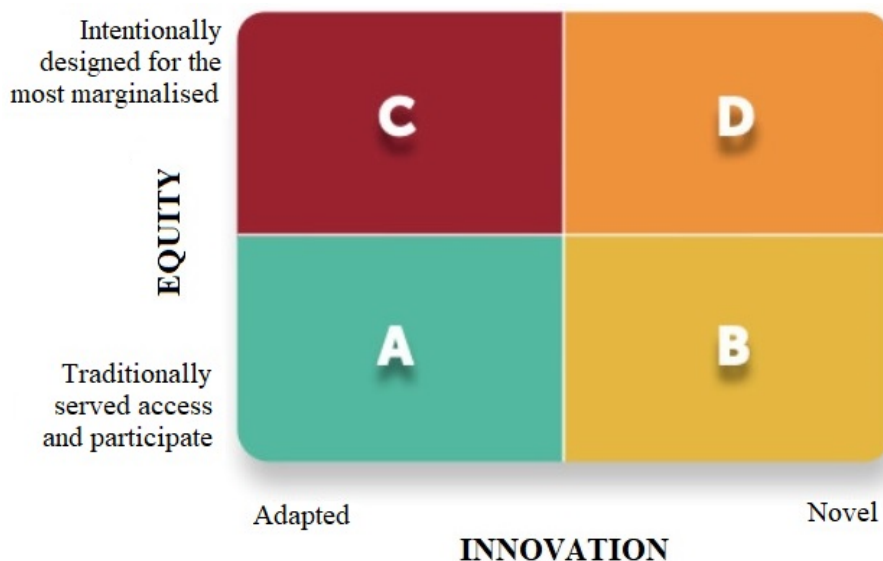


Figure 7.4: Inclusive innovation matrix (Source: Centre for Inclusive Innovation 2021)⁹⁵¹

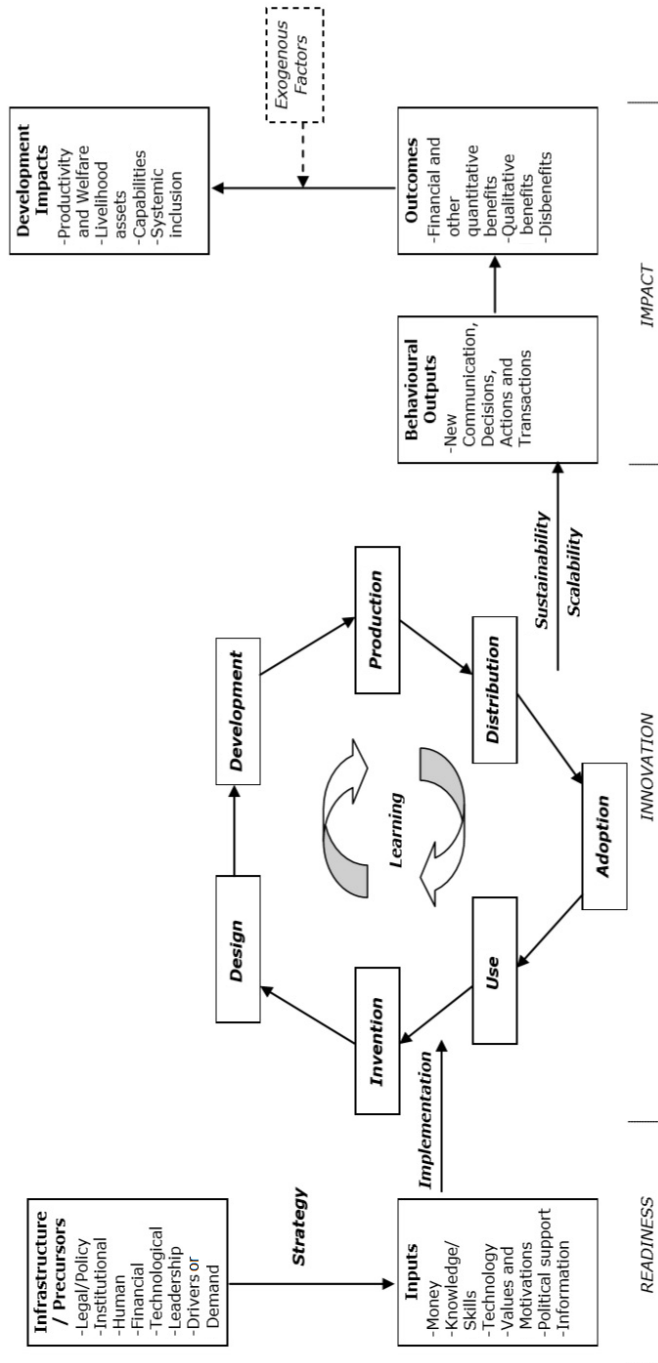


Figure 7.5: Process map for inclusive innovation (Source: Heeks et al. 2013)⁹⁵²

Inclusive innovation has, over the past decade, brought about a number of changes that can justify the notion that *new models* of innovation for development can be detected. These include:⁹⁵³

- Significant involvement of the private sector and global value chains in innovation for the poor (also, *innovation from below*: innovation emerging from low-income communities).
- Growth of technological capabilities within developing countries (also, local initiatives are combined with technology transfers and smart circular economic innovation).
- The development of poor consumers as an accessible mass market.
- Increased application of new technologies for productive innovation purposes, especially information and communication technologies such as mobile phones and apps.
- Growth of innovation platforms as mechanisms to bring together a group of stakeholders with a focus on innovating to address a particular problem or issue of common interest.
- Increased user-producer interaction that results from learning and innovation (e.g., co-creation), which occurs in the connection between producers and low-income consumers.
- Cluster innovation, where a co-located group engages in the process of group learning (e.g., a group of micro-/small enterprise owners).
- The rise of frugal innovation, i.e., an innovation that seeks to minimise resource usage, cost and complexity in the production, consumption and operation of new goods and services.

One of the successful strategies to intensify inclusive innovation, in especially the Middle East, from a benchmarking perspective has been the compiling of the *Innovation Maturity Index* (IMI). Since its debut in 2018, this index has actually contributed to increased *stability* in an age of disruption.⁹⁵⁴ The IMI comprises an exclusive framework designed to measure the innovation maturity capability of companies across industries. It consists of two pillars: *Innovate by design* (showing how to deliberately build the innovation structures, i.e., innovation strategy, architecture and a culture that sets enterprises up to innovate); and *innovation practices* (measures businesses' adoption of the key innovation practices that innovation leaders apply, such as being technology- and data-driven, hyper-relevant and talent-rich).

A key focus area is to *widen the circle* of innovation so as to include more of the disadvantaged groups. A significant effect of inclusive innovation on businesses is that it balances financial and social return for the entrepreneur or company developing and implementing it as the *objective* is to create positive economic and social impact for all

stakeholders. From a business perspective, disruptive technologies are even more successful in developing countries.

Two main reasons make them ideal target markets:⁹⁵⁵ business models that are forged in low-income markets *travel well* (i.e., they can be profitably applied in more places than models defined in high-income markets), and they compete against *non-consumption* (i.e., they offer a product or service to people who would otherwise be left out entirely or be poorly served by existing products or services). Prioritising inclusive innovation thus presents businesses with often better markets initially for *new growth* business opportunities.

Significantly, as Figure 7.6 illustrates, business ecosystems include different kinds of interactions between different types of stakeholders. By definition, independent value creation involves only stakeholders within a corporation (the closed-loop in the centre of Figure 7.6). Exchange of value (i.e., products and services) may take place only between the company and its primary stakeholders. Interdependent value co-creation is the *only* type of interaction which bridges the company with non-primary stakeholders (darker arrow in Figure 7.6).⁹⁵⁶ Thus, the ecosystem view, being in line with *inclusive innovation*, extends the scope of value creation from independent (with primary stakeholders only) to interdependent (with non-primary stakeholders). Business ecosystems can extend to even more stakeholders if opportunities for co-creation are strongly considered. Some organisations can have aligned goals or complementary resources, even though they do not (yet) interact in any way. These affinities may form the basis of new opportunities for value co-creation.

Lastly, in terms of policy agenda, *inclusive innovations* are gaining momentum in emerging markets such as India and China, where governments have declared it a policy priority.⁹⁵⁷ The competitive advantage it forges in especially developing countries is crucial for their catching-up strategies. The importance of *transformative* socio-economic policies cannot be overstated.

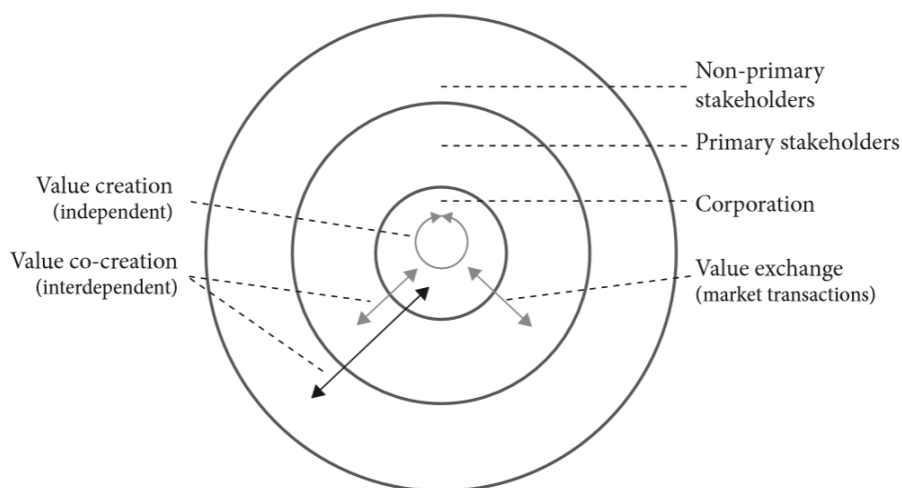


Figure 7.6: Range of business ecosystem stakeholders and interactions (Source: Mayer & Roche 2021)⁹⁵⁸

Since technological learning is cumulative in nature, the decisions that are taken at the start of evolutionary processes give rise to particular trajectories. As Richard Nelson asserts, technologies, industrial structures and supporting institutions “co-evolve”.⁹⁵⁹ Policy choices related to specific technological advances should therefore be determined by, on the one hand, a country’s socio-economic conditions, but on the other hand, by factors enabling it to gain a *competitive advantage* in trade and investment. Tilman Altenburg underlines that

Especially in poor countries, innovation policy should focus on inclusive innovations and their diffusion. Innovations are inclusive if they benefit the poor in terms of additional income and employment. Although creative destruction is part of the process of innovation, the emerging productive activities that replace less efficient ones should be accessible to poor people. Especially relevant are innovations in those areas where poor people live and work, e.g., a focus on upgrading of agriculture (including forward and backward linkages and post-harvest handling).⁹⁶⁰

It is vital to formulate an Innovation policy in *partnership* with communities and local businesses to ensure sustainability and prevent initiatives from expiring because governments simply run out of funds or new ones are elected. For developed countries, the situation is a bit

different, but the importance of *inclusive innovation* to be supported by policy is similar. The better avenue for these countries is arguably that of inclusive growth.⁹⁶¹ The benefit of innovation for inclusive growth is that it directly reduces economic inequality and poverty.

Steering/navigating the new economy movements

One fair criticism levelled against mainstream/orthodox/conventional economic thinking is that it is not very open to new perspectives brought about by new economic movements or paradigms. Neoliberal economists, in particular, have been extremely *critical* of heterodox or new economic thinking when the emphasis is moved away from the dominance (or idolising) of GDP growth.

Given how dependent neoliberal capitalism's survival is on growth, it is understandable. But what is not understandable is the blind ignorance very often toward new economic thinking that emphasises *sustainability*, improved economic efficiency (e.g., circular economy), collaboration (as opposed to competition only), non-market economic activity, alternative progress measures and values-based economics as *balancing factors*, not to replace GDP, but to broaden the areas/scope for economic advance. This is not to say that new economic movements and alternative thinking should not be critically evaluated; indeed, they should (like any new economic idea; all economic ideas should undergo robust scrutiny), but they should be given an *equal chance*, just like conventional thinking, to enrich the science and contribute to a better economic system than what we currently have. In actual fact, if these thoughts are outright dismissed, they might be the very reason for the systemic collapse of the global economy.

After we've seen the devastating effects of the 2020–2022 global pandemic, there is no place for economic bias in this way anymore; *sober thinking* demands that all economic ideas/models/thinking should be weighed on equal footing for considering how to *improve* the economy. Of course, there will be trade-offs and contradictions, which will need to be dealt with, but in an era of greater open-mindedness, economic researchers and practitioners are obligated to *reformulate* and *recalibrate* the economy so that it works for everyone, leads to broad improvement in human well-being, and is more adjustable and resilient against economic and social shocks.

In view of the increasing number of financial shocks and crises over the past 40 years, in particular, quite a number of *new economic movements* have surfaced that promote more pluralist and/or heterodox economic thinking. Instead of giving them a blind eye, many of them

should be seriously considered (or at least some of their thinking) for *inclusion* in mainstream economics, and their contributions are afforded the necessary open-mindedness to see how (or if) they can be applied/implemented to improve the economy.

While, in fact, there is a mushrooming of new economy movements globally with lots of overlapping in thinking and approaches, space does not permit us to go in-depth into investigating their correlations, similarities or differences here. But at least we can consider some of the strongest or most influential *new economy initiatives* that deserve attention from an inclusive economy perspective, as well as how to steer/navigate the complementary role that they could play. When highlighting them here: (1) it does not mean that everything about these movements is synonymous with inclusive economics; (2) it does not mean that inclusive economics is in support of the organisations involved; and (3) the emphasis is placed on what the movements are about, not all the organisations aboard or their membership size.

The first movement is that of *inclusive capitalism*. An example of that is the global Coalition for Inclusive Capitalism. Mainly being a policy movement, inclusive capitalism seeks to address the increasing income and wealth inequality, especially within Western capitalism and gained strong momentum after the GFC of 2007–2009. Two target areas it aims at are:

- *Eradicating systemic poverty* where people are ensnared by poverty traps (i.e. they do not have the resources necessary to get out of poverty, e.g., financial capital, education or connections, and have little or no access to other economic and social resources); and where people are *suppressed* by an (unfair) economic system that makes upward economic mobility difficult, e.g., restrictions to better employment, and/or when they are overpowered by other dominant economic actors.)
- *Empowering people and business* by increasing low-income people's access to economic resources, by contributing to an enabling environment and working towards bringing about systemic changes for especially smaller businesses to become self-sufficient.

Inclusive capitalism places the accent on using market-based solutions for poverty alleviation.⁹⁶² Supporters of inclusive capitalism are committed to and *call* on other corporates to serve the causes of human equality and diversity and to cherish the ecology of the planet, alongside driving shareholder returns.⁹⁶³

Many businesses have responded to this call (which is also called “conscious capitalism”), paying wages over the national average and providing a percentage of their profits as grants to social impact causes. They see themselves as part of a transformative shift in driving positive change, which suggests we are entering the age of *responsible business*. They take full cognizance of the mindsets of the new workforce comprising mostly millennials. In a recent report by PricewaterhouseCoopers, it was found that 88% of young people want to work for a company whose values reflect their own.⁹⁶⁴

Given that millennials will make up 75% of the global workforce by 2030, this trend seems to be here to stay. Those parts of the inclusive capitalism movement see themselves as being in “the business of changing the world”.⁹⁶⁵ For many of them, the vision of their companies has a purpose and societal impact built into their DNA as a business. Many use what is called a “1-1-1 model”: giving 1% of their time, product and profit back to the community.

As businesses and organisations adjust to the new realities of the 4IR, progressive boardrooms around the world are questioning the idea that the ultimate (or only) value of business success is the extent to which it enriches shareholders.⁹⁶⁶ This is a refreshing development and must be promoted, yet it is still fairly philanthropic in nature. The *next step* in an inclusive economy trajectory is to become fully-fledged inclusive businesses. It certainly is commendable to see the Coalition for Inclusive Capitalism, for instance, being so dedicated to making capitalism work for everyone and that they *partner* with private, public and civic sector leaders on initiatives to make capitalism inclusive and its benefits more widely and equitably shared.⁹⁶⁷ These networks are vital.

The second movement is the *Green Revolution* or the Third Agricultural Revolution. There are essentially two facets to this movement (or they can be seen as two separate movements linked by their focus on nature): One is the large increase in crop production in countries around the world through the use of artificial fertilisers, pesticides and high-yield crop varieties, which started gaining momentum in the 1950s and 1960s as a result of research technology transfer initiatives.⁹⁶⁸

The significant increases in agricultural production since then came with the *adoption* of new technologies, agrochemicals, controlled water supply (usually involving irrigation) and newer methods of cultivation, including mechanisation. It even led to the creation of new (and risky) *strains* in food production that did not exist in nature, such

as genetically modified organisms (GMOs), a phenomenon also called the “Gene Revolution”.⁹⁶⁹

Of even more significance is the other part of the movement, namely the dramatic rise in concern about environmental sustainability, restorative/regenerative agriculture and renewable energy, which placed emphasis on food security, taking ecological limits into account, and protecting biodiversity. Along these lines, the world community has clearly acknowledged the negative aspects of agricultural expansion as the 1992 Rio Treaty, signed by 189 nations, has led to several national *biodiversity action plans*, which assign substantial biodiversity loss to agriculture’s expansion into new domains.⁹⁷⁰

In the wake of the Second Green Revolution, it has resulted in a prolific rise in environmental/climate movements and activists, from Oxfam to the Greta Thunbergs of this world.⁹⁷¹ Their focus on conservation and *circularity* (e.g., recycling and re-using) has infiltrated virtually every science (economics, politics, education, etc.), institution, and private and public policy around the globe.

The *third movement* is a wide variety of genuine economic progress initiatives, from supporters of the Donut Economy to the Happy Planet Index to the access/sharing economies to those that are implementing the Honeycomb model to supporters of the resource-based economy involved in initiatives like the Venus Project, the peer-to-peer (P2P) Foundation and many more. One movement that stands out, in particular, is that led by the New Economics Foundation (NEF). With scholars and activists involved from all (adult) ages, the NEF is making its mark as a predominantly British think-tank that promotes social, economic and environmental justice.

Having become quite influential since its founding in 1986, they are still focused on its *original aim*: working towards a “new model of wealth creation, based on equality, diversity and economic stability”.⁹⁷² Through their research and international networks, they have positioned themselves as credible thought-leaders in terms of new economic thinking and developing alternative economic models. The NEF works with all like-minded groups of people and organisations to ignite *change from below*, combining this with rigorous research to put constructive pressure on policy-makers, business leaders and leading economic decision-makers to make room for sustainable economic change. They have what they call “three missions” to transform the economy and make the following statement:

The Inclusive Economy: Criteria, Principles and Ubuntu

Underpinning all three missions is an acknowledgement that the rules and institutions that shape our economy are not forces of nature beyond our control, but have been designed by people. Over the past 40 years, they have been redesigned in favour of the market rather than people and planet. In little more than a decade, we must redesign them again.⁹⁷³

The three missions are:

- A *new social settlement* to ensure that people are paid well, have more time off to spend with their families and have access to the things they need for a decent life.
- A *Green New Deal* (a plan for government-led investment) to reduce the carbon emitted and immensely enhance nature's condition while creating a new generation of jobs.
- A *democratic economy* (where state and economic power are decentralised, transforming ownership of the economy) gives people an equal stake wherever they live and work.

Only these three movements are covered here, simply as an illustration of the *diversity* of people and organisations concerned about the state of the economy, globally and locally. The age of the Internet has given people *organising power* and fast growth through their online presence and social media activity. Mobilising mass numbers (e.g., the Arab Spring) and linking up with other mass movements is very easy, which introduces the era of *governance from below*.

These movements, especially with the involvement of millennials, are getting much more organised and powerful by the day. It is a fervid reality in the age of the 4IR that governments, MNCs and institutions need to manage/navigate well. It is a given that they will only become *more influential* as time goes on. As these movements have already gained strong public support in this latest phase of globalisation and global communications, their proposals and methods should, of course, be tested, and not just summarily be accepted; but *tested*, not with the aim of dismissing them, rather improving them.

It is striking how *diverse* the backgrounds are of those involved in these movements, many of whom are not trained in economics and are also part of organisations that are community or culturally orientated. Being like-minded and with social media and other online platforms at their disposal, they have built up networks of people from all walks of life who share a desire for *economic renewal*. Just to say, this is something to be embraced, especially by economic experts, because it adds to the

array of knowledge and experience (as well as colourful characters and ideas) at our disposal to *think afresh* about the economy,⁹⁷⁴ Rather than no one interested or people being too disheartened. In principle, we should actually encourage mutual interaction and the building up of a *network* of movements so that contacts and connections grow as people share (and test) their thoughts from different perspectives.

Ironically, the search for ‘new humanity’ always points us to each other. What all these new economy movements, organisations, and people share are that their *starting point* is that which Hannah Arendt calls “the threatened human condition”.⁹⁷⁵ Collectively and individually, they seek to draw away from the precipice beyond which we violate the human condition, back to the political and economic *centre* of society where decisions are made that are vital for our well-being and future. As we now have more insight into the harshness of today’s economic system, we must speak together and without fear about our own inadequacies/positions. Goudzwaard and De Lange stated it well:

People, organisations and movements *devoted to care* for the future of the environment and of human society should therefore consult with one another about possible directions to follow, even if that means subjecting our own patterns of life to the scrutiny of others.⁹⁷⁶

By allowing vulnerability, we come to learn how to truly appreciate new knowledge and identify more accurately what exactly needs to change. So, importantly, let us not underestimate the wealth of wisdom that ordinary people have.

It is interesting that what all these movements have in common, among other things, is a quest for *real* economic freedom and seeking alternative ways for the economy to function; a sincere sense that something is wrong with the economy (i.e., in some way, we are trapped), which drives them to find new answers. The movements might also represent *humanity’s cry* for new solutions that will last, that will benefit the poor as much as the rich, and that will *not* put our very existence (on this planet) at risk but make us *thrive* in a balanced way.

One can almost describe it as the quest for a new equilibrium. What they stand for and what we are learning from these movements, and the rapid emergence of new economic ideas, is that *true* economic freedom is not (fully) found in free markets or in economic liberalisation (since, eventually, they also crowd out *space*), but rather

in the economy being in sync with the rest of human life: nature, civilisation and shared human virtues.

This *new space* represents a *new equilibrium*; other than the market equilibrium we are so used to. This is something crucial that policy-makers, researchers and leading economic role-players need to respond to rather quickly. The urgency of the moment cannot be understated.

Transition by means of learning something special: Ubuntu economics

The Western short-term consumerism and profit-driven culture has lost something special when it comes to the economy. Although it seems that the sophisticated supercapitalism system that was built lays down a growth path or *highway* of prosperity and progress for the world to follow; in reality, it has “sold its soul” for many things that have little true value, actions that carry high risk, high imbalances, high debt levels – a form of modern-day slavery it is not aware of.

Providentially, something of the essence of the economy, *the heart* of what the economy is all about, has remained preserved in Africa. Although the continent has not much to show for how this has benefited it, at the moment, it carries within its *people* rich wisdom and a deep understanding of what is of real value. Innate in the African people is something special called “Ubuntu”. The value of Ubuntu is worth more than all the money, gold, silver and technology of the West (and nowadays, the East).

Through Ubuntu, Africa carries within itself *the keys*, the missing link, which is desperately needed to unlock the traps that the global economy has set for itself. Translated into “Ubuntu economics”, something special (that is lost) can be inserted into the economy that can make it work for all.

Ubuntu is a beautiful African philosophy that means *humanness*⁵. According to Adrian van Breda, “it gives expression to deeply-held African ideals of one’s personhood being rooted in one’s interconnectedness with others”.⁹⁷⁷ The term has so far been mostly limited to the idea of ‘mutual aid’: people helping each other in a spirit of solidarity. Ubuntu is commonly associated with the Zulu/Xhosa

5 Note that this is not to be equated to *humanism* (which is fixed and not in motion). Ubuntu is a broader concept, but also not as far as referring to a complex wholeness involving multi-layered and incessant interaction of all entities.

saying “*umuntu ngumuntu ngabantu*”: a person is a person through other persons. It is part of a number of Southern African languages, e.g., Shona (Hunhu) or Botho (Sotho/Tswana), Venda, Swahili, Tsonga, Shangaan, and in languages in Uganda.⁹⁷⁸

The translation into Western philosophy is difficult, as Yvonne Mokgoro puts it, “because the African worldview is not easily and neatly categorised ... any attempt to define Ubuntu is often a simplification of a more expansive, flexible and philosophically accommodative idea”.⁹⁷⁹ It can be summarised, though, as “I am because we are and since we are, therefore I am”.⁹⁸⁰ This represents a *relational worldview* where nothing can be seen in isolation; individuality is a relative concept that does not exist without the community (as well as the ecosystems and the spiritual world) of which the individual is part.⁹⁸¹

Connecting this with capability theory, Drucilla Cornell articulates this as “freedom to be together in a way that enhances everyone’s capability to transform themselves in their society”.⁹⁸² Ubuntu could thus be considered as a (Southern) African concept of *well-being*. Actually, variants of this concept exist in other parts of the world: *gotong royong* in Indonesia means “mutual assistance” (i.e., the need for balance in a sufficient economy); *lagom* in Sweden means “just the right amount”; and *buen vivir* in South America means “living well in harmony with others and with nature”.⁹⁸³

This is in strong contrast to the Western individualist mindset, where competition, personal success and independence (self-reliance) are primary *motivations* for progress. While these are not wrong, they form the basis of today’s predominant but vulnerable economic system and are largely the reason for the inequality (exclusion) crisis we are in. Ubuntu *shifts* the emphasis (even worldview) from “I think, therefore I am” (individualistic) to “I belong, therefore I am” (collectivistic).⁹⁸⁴

The emphasis is on sharing (and optimising) available resources with the aim of benefiting all. Profit becomes a collective objective, allocated equitably, proportional to contribution and productivity. In this way, the focus of Ubuntu economics is on collective expansion, not hoarding (winner takes it all). Africa’s Ubuntu mindset lends itself to building a more circular economy to reduce wastage, optimising efficiency and having greener, inclusive growth. According to Johann Broodryk, Ubuntu is based “on the values of intense humanness, caring, sharing, respect, compassion and associated values, ensuring a happy and qualitative communal way of life, in the spirit of family”.⁹⁸⁵ Mutual support, non-discrimination, respect for human dignity, and

cooperation are all central features which is also at odds with controlled societies (e.g. China).

Ubuntu economics is a form of relationship-based economics. It is strongly related to, but more than, social capital. Collective well-being and community are not seen as *exterior*, as in the Western individualistic view. It is seen as *exterior and interior*, underlining a direct dependence between individual and societal well-being.⁹⁸⁶ Ubuntu envisions a communal-type society where seeking advantage for the group/community ranks equal to personal benefit, but without the latter being the main or end goal.

Importantly, this does not mean that utilitarian neoclassical economics and Ubuntu are mutually exclusive. Instead, Ubuntu incorporates individualism and utilitarianism. Each individual continues to participate in the economy for the *common good* of both the community and him/herself; thus, community and individual interests coincide in this pursuit. A *fusion* occurs between the social and the individual levels of interest, decision and action. The same with utilitarianism in the sense that the decisional process of each community is led by the will of maximising *society's utility* through individual utility maximisation by its members.⁹⁸⁷ A transposing of utilitarianism from an individualistic to a social level occurs.

The key is explicitly valuing the importance of shared economic interests. By raising the *collective consciousness*, Ubuntu works to compensate for the excesses of individualism. The value of Ubuntu is that it not so much represents new goals for the economy but opens up an *alternative road* for reaching the goals (growth, utility maximisation, welfare optimisation, progress and sustainable development).

In terms of the *symbiosis* between Ubuntu and social capital, the latter can be seen as the resources embedded in a network that can be accessed by the members of the network in order to gain a benefit.⁹⁸⁸ Since networks could be groups or communities, similar to this, Ubuntu also entails networks where the interpersonal relationships may be either horizontal or vertical, emphasising *open democratic processes*. Hence, as Matteo Migheli highlights, "Ubuntu translates from theory to practice thanks to interpersonal networks, which constitute the social capital of a community".⁹⁸⁹ Social capital becomes the means through which Ubuntu facilitates and allows the community of individuals to pursue *common goals*.

As follows, "by embracing Ubuntu economics, the vibrant complexity of human behaviour can be released from the shackles of traditional rationality, and appreciated as an unrestrained force

of culture, development, and true sustainability".⁹⁹⁰ Apart from the shared values that Ubuntu embed in society and in the economy, it also *adds value* in a number of ways that fill the vacuum or missing link of *inclusivity* in contemporary economics:⁹⁹¹

- *Sustainable job creation.* Adding to economic stability, Ubuntu stimulates cooperation among community members to start new entrepreneurial ventures and create *safe jobs*. It entrenches a mindset of wanting to *be developed*, thus desiring and acquiring new skills;
- *Local empowerment.* Supporting local businesses is a critical outcome of Ubuntu, resulting in keeping and generating wealth within communities for reinvestment. Empowering the youth through quality education by Ubuntu-type involvement in schools and universities;
- *Productive social cohesion.* Ubuntu leads to improved teamwork, solidarity, mutual trust and loyalty in human relationships. Communities with strong Ubuntu are more successful in responding positively to public programmes of development; the members of these communities are less likely to be alcohol or drug addicted. Ubuntu has been used to appease ethnic conflicts in places like Burundi. An Ubuntu person, by definition, cares about his/her community and the common good(s);
- *Embedding inclusivity.* Ubuntu makes the members of a society feel linked to the other members of the same society through a *community feel* and work to make it benefit all. Ubuntu is important for achieving equalisation of opportunities and, lest one forgets, the economic development of physically disabled people (who often suffer by being excluded). Enhancing economic performance even further, Ubuntu fosters the social inclusion of women through women's organisations and regulations that protect women's interests;
- *Public accountability.* Having Ubuntu principles shared by society collectively places responsibility on public authorities to put effective institutions and policies in place as per the needs of the people. The presence of Ubuntu has had, for example, a positive effect on the community-based provision of essential services in rural South Africa;
- *Participatory leadership.* Ubuntu's leadership philosophy enhances collectivism through a democratic way of decision-making: the leader's role in society is in a mediating capacity where matters are discussed with the other members of society and viewpoints compared. Only after this does s/he formulate a syncretic decision

that represents what the community deems *good*. This is *we-thinking* and *we-rationality* that is inclusive and consensus-based. Such mediation facilitates a balance between individual goals/preferences and social goals, which results in greater ownership by the community and higher productivity to reach them;

- *Ecological intelligence*. The collective awareness brought about by Ubuntu sensitises a community to the importance of responsible and effective natural resource management.

The African way is the way of sustainability. It is innate to the roots of African cultures and has, for good reason, remained preserved. Corrupt governance has hampered Africans from fully proving the value of this way to the world. But things are *changing*. Corruption is increasingly exposed; good, young moral leaders are rising up; and an inclusive, collaborative economy is taking shape organically in communities at the ground level as they become more organised and innovative. From smart villages to new trading systems to increased access to network technologies are *empowering* Africans in new ways.⁹⁹²

The positive effects of these will be seen in the years to come. The beauty is that it is undergirded by *African ethics* that Kwasi Wiredu defines as “the observance of rules for the harmonious adjustment of the interest of the individual to those of others in society”.⁹⁹³ Similar to the rediscovery of *oikonomos* in modern-day economics (i.e., global village due to globalisation), Ubuntu is arising, as Wiredu reminds:

In traditional Akan society it was so much and so palpably a part of working experience that the Akans actually came to think of life (*obra*) as one continuous drama of mutual aid (*nnoboa*). *Obra ye nnoboa*: Life is mutual aid.

Building trust, we are better off in an Ubuntu economy by working together. The economic value of collaboration is given appropriate prominence, yet not at the expense of competition. Healthy competition is strongly encouraged by Ubuntu, as far as it contributes to the *balance* of society and its balanced economic progress. It sets the right framework for economic sustainability. In a community, there is supposed to be accountability and proper functionality (like organs of a body, you need diversity and harmonious relationships to function well and be healthy).

In the Ubuntu economy, the aim is for all to be *healthy* (true contentment), not wealth hoarding and self-enrichment. Ubuntu stress *shared identity*, which is a truer reflection of our collective

origin (even *oikonomos*) than individualism. In Ubuntu economics, the ultimate aim is not personal indulgence as an individual but a flourishing society. What is more beautiful than that? Take care of your community and they will take care of you.

This is the Ubuntu way: having a drive to succeed as communities, not just as individuals. Ubuntu principles properly applied in the economy bring true *economic justice* and eradicate the victim mentality and, with it, the dependency/orphan syndrome in the economy. This brings true *economic empowerment* to the people and lays the foundation for an effective enabling environment. It brings a transcendent unity to the economy that the market on its own cannot achieve, nor economic policies. The people take collective ownership. The result is an economy of care and an economy of enough for the *collective good*.

In this way, also, an organic social and economic safety net is weaved together, based on genuine care, which is much stronger than even the social security systems of the West. This has been proven in African villages.⁹⁹⁴ Now the challenge is to let Ubuntu permeate the whole economy, taking its *secret recipe* from micro through to macro levels.

According to Professor Dorine van Norren, “Ubuntu seems rather an essentially different way of approaching the problems a society faces, global or local, that the world could benefit from”.⁹⁹⁵ It elevates our thinking. While both individual development (the emphasis of Western thinking) and the value of relationships (the emphasis of African and much Eastern thinking) *together* form the basis of human life, Ubuntu helps to recontextualise (cultivating a new appreciation) for local and global public goods.

Its accent on human dignity and human worth brings back a much-needed *warmth* to the economy, which has become rather cold and mechanistic (particularly evidenced through *cut-throat* competition). Judge Mokgoro, in fact, claims that in a hierarchy of legal principles, Ubuntu stands higher than *human dignity* and can be considered as the mother principle of law. She states that,

human dignity is usually said to be the mother of all rights ... in that respect I would regard Ubuntu as the grandmother of all rights ...; to me Ubuntu goes even deeper than human dignity ... we regard our *beingness* as related to the *beingness* of others, those we associate with, the community we live in ... It is others who regard you with humaneness.⁹⁹⁶

This is in stark contrast to the self-centred materialism of supercapitalism, which is the result of a culture of individualism (my money, my profit, my benefit, my possessions). Ubuntu moves us from *I* to *us*. It shows us how the community could be more important than the individual, which is, in fact, what building *common wealth* is all about. If we sufficiently prioritise community and shared interest and integrate it fully into how we live and participate in the economy, we would not be able to sleep if our neighbour is hungry.

This is how an economy of care takes effect naturally and unforced. The self-serving/individualist mindset *eats the seed* of others, so to speak, seeds that they should have shared to build capacity (common wealth) in their community (e.g., an excessive luxury that could have been redistributed meaningfully for the common good). Ubuntu shapes a new culture that is *refreshing* in an age of plenty but needs careful stewardship, both in terms of how it overtakes the individualist culture (i.e., through policy, inclusive business, circular economy, etc.) and in how it forms part of a proper framework of inclusive development that also includes social agreements or social covenants so that progress is based on consensus, not force.

This lays the foundation for building a *healing economy* through inclusion. In our increasingly unequal societies and economies, inclusion is good for growth/progress and growth/progress is good for inclusion. The emphasis on healing the economy is not some fairy-tale; it is as *real* as anything because it involves the real brokenness of businesses, households, policies, the poor and many more real economic factors, especially after the global pandemic. When something is broken, it needs fixing: remedying and healing.

Society is broken and desperately needs healing. Through meaningful inclusion, a healing economy can take effect and bring healing to society. In the spirit of Ubuntu, here are just a few examples of instruments through which such healing can *turn the tide*:

- *Healing through business.* As stated by Bruno Roche and Jay Jakub, “We may now, in fact, have a once-in-a-lifetime opportunity to reposition business as a restorative power for healing the global economy; an engine for profound positive change for the many”.⁹⁹⁷
- *Healing the land.* When connecting “role players in the food value chain around the art and science of producing and using food that has been produced using climate smart, conservation and regenerative agriculture as means,” the role that regenerative agriculture can play in both healing the land, and healing people in the process, come to the fore.⁹⁹⁸ The concept of *farm to heal*

then also comes into the fray. It furthermore is complementary to regenerative human development and truly values the holistic properties of systems.⁹⁹⁹

- *Healing the system.* Reforming, resetting and repurposing the economic system (and other systems related to it) from profits to people and from income-driven welfare to well-being.
- *Healing people through building a culture of honour and respect.* Emphasising universal values and valuing every human life, whether rich or poor, young or old, male or female, white, black or brown, as we *start over* after we have all been affected by the global pandemic and want to rebuild the economy; now only on a more sustainable foundation.
- *Healing imbalances.* Restoring the inequality, injustice, global imbalances, unfair or exploitative business practices, policy bias and crafty secret interest groups to the point of *rebalancing* the economy through proper accountability in economic and political systems.

The world can indeed learn from Africa, even from its mistakes. Ubuntu is something very special, and its true potential is yet *unexplored*, not just in Africa but in the wider world economy. As Dorine van Norren highlights: “This is not merely window-dressing, but a fundamental reshaping of our thinking, where market competition is complemented by cooperation; and where acting out of self-interest is balanced by the notion of not existing without the other.”¹⁰⁰⁰

Kevin Behrens adds to this by pointing out that “so many African voices claim that the fact that we are interconnected entails that we are morally responsible for one another”.¹⁰⁰¹ Ubuntu “encourages us toward better self-realisation as a community, to come closer to the ideal, and to reach our full human potential as society and as individuals”.¹⁰⁰²

Ubuntu can never remain just a slogan or a far-off ideal. Then it will be a stunning *game-changing* treasure lost to the world. Ubuntu opens our eyes and minds, as much as it does to the fragrances of nature, to the hidden value and beauty of human diversity. Ubuntu reminds us that people are the *real wealth* of a nation, and human development based on Ubuntu principles is all about enlarging their choices by involving all in value-creation activities.

Conclusion: An inclusive economy at our doorstep

A *new balance* and a new understanding of equilibrium are what inclusive economics is about;⁶ for the purpose of improving human well-being in a more comprehensive and new way than GDP growth. Figure 7.7 illustrates this in an inclusive economic framework that interlocks organically.



Figure 7.7: Inclusive economic framework: The right balance for the right transition (Source: Own contribution)

The five (minimum) criteria of an inclusive economy highlighted above *combine* in a unique way, not just to redirect the economy in a more sustainable direction but to *alter* the very fabric of the economy: (1) that which motivates consumers and producers; (2) that which determine

⁶ It can in short be described as an *eco-socio-balance* reflecting an ecological and social balance with the economy.

the ultimate objectives of policy-making and business decision-making; and (3) the way in which the health and true progress of the economy is measured. These three aspects: motivation, decision-making and assessment, are fundamental to the economy and for *what* purpose it operates. Changing these elements through inclusive economic criteria and principles can bring about a *real transition* with the potential of creating win-win situations (not without sacrifices) for all economic participants.

Repurposing the economy and reordering economic priorities can perhaps be summed up by this statement: “Humanity is not created for production, but production for humanity”.¹⁰⁰³ This does not mean that humanity’s involvement in production is not important – it certainly is – but its real purpose in terms of the economy is more to be an effective *distributor* of resources (in line with *oikonomos*) than primarily being a producer. Productivity is therefore interpreted (in an inclusive economy context) much broader as it also involves effective distribution/stewardship. It is perhaps because both are currently not appreciated to the same extent that economic inequality (and exclusion) is so rampant.

Innovation (human creativity) and technology should as much be applied to improving distribution as optimising production. In this way, science can start fully assuming the responsibility for what Ernst Schumacher, in his book with the subtitle, *Economics as if people mattered*, called “technology with a human face”.¹⁰⁰⁴ Inclusive economics prioritises humaneness to be a new point of departure for attaining genuine economic progress and well-being.

The world economy is at a *crossroads*. All countries, rich and poor, have major decisions to make in taking the global economy forward. It is both: a *Catch-22 situation* since the planet cannot afford the whole world to grow along with the same patterns that the developed economies have (the natural resources are not enough and the negative externalities of linear growth too many); and it is an *opportune situation* that can set the global economy on a new trajectory of sustainable progress if there is strong enough collaboration and a general willingness to *rethink* conventional economic assumptions. The crossroads mean that either we will make the right choice, or the choice will be made for us by the consequences of current inaction. Change is a given, but we *still have* a choice. If we are serious about genuine economic progress and ensuring that everyone’s quality of life improves at similar rates sustainably, then economic inclusivity must be a leading priority.

A question often asked is, “Where does one start” in transitioning from a linear/conventional economy to a more diversified sustainable economy? From a strategic perspective, countries, especially developing countries, can start by identifying areas of major concern (or *low-hanging fruit* opportunities) from which to build traction.

Take, for instance, turning waste into energy as a typical example. Many countries struggle with low-income living areas where there are huge *rubbish dumps* or scattered rubbish or waste areas that make the area unhealthy (especially for children) and unpleasant to look at, never mind wanting to stay there.¹⁰⁰⁵ With the support of businesses, other communities and local government, such a community can start using *innovative methods* (that are available and that have already been developed all around the world) to turn their waste into forms of energy and/or products that can be sold. In this way, the problem becomes the *opportunity*.

Community members now have an incentive to clean up the area; some of them can start small businesses, and the area becomes a source of energy or energy provider, stimulating their local economy and *helping* to bring down energy costs for surrounding areas. The projects can be incorporated into the children’s education programmes, and new skills can be acquired. Suddenly, what appeared like a rubbish dump, now becomes an attractive investment destination. Inclusivity usually starts small and then grows into a *network of change*, flowing from micro to macro levels.

Our integrative reality calls for integrative mindsets and economic actions that resonate with it. If we live in a world where globalisation has created a highly interdependent global economy, then it requires the dynamic of economic participation to *adjust* to the point where it is in *harmony* with such interdependence. Elitist individualism cannot survive in a communal (global village) reality; sooner or later, it perishes. This integrative reality requires an economic development model that integrates rather than separates social and ecological dynamics.

A conscientious and fine *balance of inclusion* is most critical for this transition to be done effectively. Ubuntu is ideal for assisting with this. Finally, as a reminder of what is more important, I would like to end the book with the words of Winston Churchill: “We make a living by what we get, but we make a life by what we give.”^{7,1006}

7 “This was their finest hour” was a speech that Winston Churchill delivered to the House of Commons of the United Kingdom on 18 June 1940 (Churchill 1949).

Chapter 7

Scan the QR code to access a video on this chapter by the author.



Written during the global lockdown.

True hope can't be locked down.

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